TRADE EFFECTS OF EC MEMBERSHIP ON SPAIN, GREECE & PORTUGAL

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Greece joined the European Community in 1981 and Spain and Portugal in 1986. Given the relative size and level of development of the three economies it was expected that EC accession would have profound effects on the economies of the three Mediterranean countries.

Several studies in the fields of political economy and economics have conducted comparative analyses on similarities and differences of the three aforementioned countries (Seers and Vaitsos, 1981; Seers, Schaffer and Kiljunen, 1979; Tsoukalis, 1981; Sampedro and Payno, 1983; Katseli, 1983 etc.).

It is generally accepted that, as far as economics is concerned, EC membership opened, for the three Southern European countries, a significant source of direct and portfolio investment, lending and budgetary transfers (via the Agricultural, Social and Regional Funds) that allowed the adjustment of the balance of payments of Spain, Greece and Portugal via surpluses in their capital accounts.

On the other hand EC membership was associated with significant changes in the direction and volume of trade between the "three" and the EC members on the one side and the "three" and non-EC countries on the other side. Also EC membership was associated with significant deterioration of the trade balance of the "three".

Increasing trade deficits exerted significant pressures upon the balance of payments of the three countries. Spain and Portugal, helped by declining oil prices and a surge in foreign investment and tourist earnings, managed to minimize their balance of payment problems. This was not so in Greece where trade deterioration after entry was accompanied by expansionary government policies resulting in serious balance of payment problems.

According to the customs union theory the formation or enlargement of a customs union will affect the volume and direction of trade in several ways. As tariffs and other barriers to trade are removed between countries, trade between union members will increase (trade creation). On the other hand trade between union members and non-union members will decrease (trade diversion). Trade creation is beneficial and trade diversion is harmful. Which one dominates depends upon circumstances (Lipsey, 1960).

Trade with countries outside the union is affected, not only by tariff changes within the union, but also by the alignment of national tariffs with the Common External Tariff (CET) or Common Customs Tariff (CCT). Where this results in a reduction in duties, external trade creation may be expected, that is lower-cost non-union production replaces higher-cost domestic production in the union market. An increase in duties may lead to trade suppression as higher-cost union production displaces lower cost non-union production because of the discriminatory impact of the CET.

Furthermore, to the extent that some economies are more efficient than others and to the extent that participation in the

union requires asymmetric reduction of tariff and non-tariff barriers to trade (as in the case of the "three") the trade balances of the least efficient and more protected -prior to entry- are expected to deteriorate, at least in the short-term, until the necessary adjustments take place.

Of course the trade deficit problems of the "three" cannot only be attributed to their EC entry. Other factors such as government policies, oil prices and terms of trade, exchange rates etc. have played their role. Yet there has been a clear trend toward more deficits in almost all trade groups since entry.

The economies of the "three" were weak in competing without protection with the more advanced and efficient EC-9 ones. Their earlier protectionist policies did not give their industry and agriculture the incentives to become more efficient. In addition the small size of the economy, when it comes to Greece and Portugal, did not allow the development of economies of scale.

In addition entry to the EC meant the asymmetric reduction of tariff and non-tariff barriers to trade between the "three" and the EC-9 countries. Before entry the "three" were experiencing preferential treatment by the major European Community countries while they were following protectionist trade policies.

EC membership did not seriously affect the accessibility of products of the "three" to the major EC markets but it substantially increased the accessibility of products of the major EC countries to the economies of the "three". This led to a disproportionate increase in imports relative to exports and

deteriorating trade balances for the three Southern European countries. This despite the transition periods that were granted to ameliorate the expected trade deficit problems for the new entrants.

In this paper the trade performance of the three countries before and after entry, the terms of entry of the three accession treaties and their implications for trade are analyzed. It is generally expected that EC accession led to trade creation with the EC countries, trade diversion with third countries and to deterioration of the trade and current account balances of the "three" (at least in the short and medium term).

It is argued that the main reason that the "three" faced deteriorating trade balances after entry was the asymmetric change in tariff and non-tariff barriers given the relative inefficiency of agriculture and industry of the new entrants.

Trade Performance of Greece, Spain and Portugal

In order to assess the trade effects of EC entry upon the balance of payments of Greece, Spain and Portugal several trade indicators are examined over three periods of time: first a five year period before entry (1976-80 for Greece and 1981-85 for Spain and Portugal), second the period after entry (1981-89 for Greece and 1986-89 for Spain and Portugal) and third the last two years for which data are available (1988-89). The purpose is to compare the average trade performance of the three countries before and after entry and the latest trends.

Trade indicators are presented in four different ways: first, EC trade as a percentage of total trade in order to get a measure of relative trade creation and trade diversion; second, trade flows in current ECUs; third, trade flows as percentages of GNP, a measure that accounts for inflation and the growing size of the economies and fourth, Export/Import ratios that provide a measure of the relative change of exports and imports across different trade groups. Fuel and Tourism data are not included since they were not directly affected by the terms of entry. Results are shown in Tables 1-8[1]. Year by year versions of Tables 1-8 and graphs can be found in the Appendix.

Table 1 provides an indication of relative trade creation and trade diversion for the periods before and after entry. It is evident that EC exports as a percentage of total exports and EC imports as a percentage of total imports have gone sharply up in all three cases since the first year of entry.

Trade integration with the EC was at about the same level for Greece and Spain before entry. On average during the five year period before entry about 50% of exports and 46% of imports of both countries were conducted within the EC. Portugal was more integrated, about 60% of its exports and 54% of its imports were conducted with EC countries.

In all three cases EC exports as a percentage of total exports went up after entry: by 7.4% for Greece and by 11.6% for both Spain

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[1]Sources: European Community, "External Trade Statistics", Various Editions and IMF, "International Financial Statistics", Various Editions.

and Portugal. Also EC imports as a percentage of total imports went up between 10.2% and 12% for the three countries (basis of comparison: average of years after entry vs. average of five years before entry).

In primary products trade Portugal was the most integrated with the EC of the three countries whereas Greece was the least integrated. Again there is a dramatic increase in trade: EC exports went up during the period after entry: 7.6% for Spain, 8.1% for Portugal and 14.9% for Greece. Imports from EC countries went sharply up: by 9.8% for Spain, 20% for Portugal and 29.4% for Greece.

TABLE 1: EC trade as a percentage of all trade
(Total, primary and industrial goods)

EC EXPORTS AS % OF ALL EXPORTS

ALL GOODS

YEAR	GREECE	SPAIN	PORTUGAL	SPAIN & PORTUGAL
YR:76-80	50.0%	50.0%	60.8%	YR:81-85
YR:81-89	57.4%	61.6%	72.4%	YR:86-89
YR:88-89	65.3%	62.0%	74.6%	YR:88-89
PRIMARY GOODS				
YR:76-80	46.4%	56.5%	61.0%	YR:81-85
YR:81-89	61.3%	64.1%	69.1%	YR:86-89
YR:88-89	71.2%	63.7%	68.2%	YR:88-89
INDUSTRIAL GOODS				
YR:76-80	46.6%	48.1%	62.9%	YR:81-85
YR:81-89	49.3%	62.2%	72.9%	YR:86-89
YR:88-89	58.1%	62.6%	73.7%	YR:88-89

EC IMPORTS AS % OF ALL IMPORTS

ALL GOODS

YEAR	GREECE	SPAIN	PORTUGAL	SPAIN & PORTUGAL
YR:76-80	46.0%	46.4%	54.0%	YR:81-85
YR:81-89	58.0%	56.6%	64.2%	YR:86-89
YR:88-89	58.0%	56.9%	66.0%	YR:88-89
PRIMARY GOODS				
YR:76-80	38.6%	45.9%	56.1%	YR:81-85
YR:81-89	68.0%	55.7%	76.1%	YR:86-89
YR:88-89	78.7%	56.0%	77.5%	YR:88-89
INDUSTRIAL GOODS				
YR:76-80	58.1%	66.3%	73.5%	YR:81-85
YR:81-89	67.4%	70.8%	78.6%	YR:86-89
YR:88-89	65.4%	70.3%	79.6%	YR:88-89

In industrial goods trade Portugal was again the most integrated and Greece the least integrated with the EC among the "three" before entry. The proportion of EC exports went up: 2.7% for Greece, 10% for Portugal and 14.1% for Spain after entry. The proportion of EC imports also went up, but at much lower rates than in primary products: 4.5% for Spain, 5.1% for Portugal and 9.3% for Greece.

In Table 2 the values of the major trade flows of the three countries vs. the rest of the world (Trade Balance), vs. the EC countries and vs. the non-EC countries are presented. The table includes exports, non-fuel imports and non-fuel balances of the "three". In addition the balance of the other goods and services is presented. This component includes services except tourism and goods that for various reasons do not go through customs. Also by adding the "trade balance" and the "other goods and services balance" the "goods and services balance" component is derived.

TABLE 2: Trade of goods & services data before and after EC entry
(values in current million ECU)

YR	EC EXPORTS GREECE	EC IMPORTS	EC TRADE BALANCE	NON-EC EXPORTS GREECE	NON-EC IMPORTS	NON-EC BALANCE	TOTAL EXPORTS GREECE	TOTAL IMPORTS	TRADE BALANCE	OTH G&S BALANCE GREECE	G&S BALANCE
YR:76-80	1395	2788	-1393	1402	2664	-1262	2797	5452	-2655	416	-2239
YR:81-89	3121	6209	-3088	2242	3406	-1163	5364	9615	-4251	-263	-4141
YR:88-89	3767	7848	-4081	1991	4316	-2325	5758	12164	-6406	-238	-5231
	SPAIN			SPAIN			SPAIN			SPAIN	
YR:81-85	12178	11000	1179	11929	10734	1195	24107	21733	2374	-1571	803
YR:86-89	21161	25364	-4203	13141	15749	-2608	34302	41113	-6811	-1872	-6327
YR:88-89	24425	31138	-6713	14926	19151	-4225	39350	50288	-10938	-2382	-8243
	PORTUGAL			PORTUGAL			PORTUGAL			PORTUGAL	
YR:81-85	3330	4323	-993	2106	2878	-772	5436	7201	-1765	-1064	-2829
YR:86-89	6573	8702	-2129	2447	3400	-954	9020	12102	-3082	-994	-3732
YR:88-89	7778	10886	-3109	2626	3953	-1327	10404	14839	-4435	-1041	-4644

From Table 2 it is evident that the period of entry is associated with significant trade creation and deterioration of the trade balance of the "three" vis-a-vis both the EC and third countries. The tendency has been for further deterioration during the last two years for which data are available. In the "other goods and services" area Portugal improves its trade position, Greece loses ground and Spain remains at the pre-entry levels.

In Table 3 the values presented in Table 2 are shown as percentages of the GNP. It is again demonstrated that there is a net overall trade creation for the "three" that is the net result of significant trade creation between the "three" and the EC countries and some relative trade diversion between the "three" and third countries.

TABLE 3: Trade of goods & services before and after entry
(As percentage of GNP)

	EC EXPORTS GREECE	EC IMPORTS	EC TRADE BALANCE	NON-EC EXPORTS GREECE	NON-EC IMPORTS	NON-EC BALANCE	TOTAL EXPORTS GREECE	TOTAL IMPORTS	TRADE BALANCE	OTH G&S BALANCE GREECE	ALL TRADE BALANCE
YR:76-80	5.6%	11.2%	-5.6%	5.6%	10.7%	-5.1%	11.2%	21.9%	-10.7%	1.6%	-9.1%
YR:81-89	7.5%	14.9%	-7.4%	5.5%	8.2%	-2.7%	13.0%	23.1%	-10.1%	-0.6%	-10.2%
YR:88-89	8.0%	16.7%	-8.7%	4.2%	9.2%	-5.0%	12.2%	25.9%	-13.7%	-0.6%	-12.3%
	SPAIN			SPAIN			SPAIN			SPAIN	
YR:81-85	6.4%	5.9%	0.6%	6.4%	5.7%	0.6%	12.8%	11.6%	1.2%	-0.9%	0.3%
YR:86-89	7.7%	9.1%	-1.4%	4.8%	5.6%	-0.9%	12.4%	14.7%	-2.3%	-0.7%	-2.4%
YR:88-89	7.9%	10.0%	-2.1%	4.8%	6.2%	-1.3%	12.7%	16.2%	-3.5%	-0.9%	-3.0%
	PORTUGAL			PORTUGAL			PORTUGAL			PORTUGAL	
YR:81-85	13.7%	18.0%	-4.3%	8.7%	12.0%	-3.3%	22.4%	30.0%	-7.7%	-4.5%	-12.1%
YR:86-89	19.2%	25.2%	-6.1%	7.2%	10.0%	-2.7%	26.4%	35.2%	-8.8%	-3.1%	-11.3%
YR:88-89	20.8%	29.2%	-8.4%	7.1%	10.6%	-3.6%	27.8%	39.8%	-12.0%	-3.1%	-13.8%

The tendency is for deterioration of the trade accounts of all "three" countries, especially for Spain, although the deterioration looks less severe than in Table 2. Entry was associated with a much higher increase in imports than in exports vs. EC countries. This led to a significantly higher deficit in trade between the "three" and the EC.

In Table 4 the balances of primary, industrial and miscellaneous manufactured products of the "three" in current ECU values are shown. Again the "total", EC and other-than-EC versions are presented. Evidently EC entry was associated with deterioration in the balance of primary products in the cases of Greece and Portugal whereas a slight improvement was shown for Spain.

TABLE 4: Trade of Primary, industrials and miscellaneous manufactured products (values in current million ECU)

	PRIMARY PRODUCT BALANCES			INDUSTRIAL PRODUCT BALANCES			MISCL MANUFACTURED ITEMS		
	EC	NON-EC	TOTAL	EC	NON-EC	TOTAL	EC	NON-EC	TOTAL
	GREECE								GREECE
YR:76-80	210	107	317	-1781	-1043	-2824	95	11	106
YR:81-89	-254	78	-176	-3268	-1077	-4345	346	80	425
YR:88-89	-327	92	-236	-4155	-1972	-6127	242	95	337
	SPAIN								SPAIN
YR:81-85	811	-82	729	-326	3917	3591	249	609	858
YR:86-89	983	-214	770	-6053	-7	-6059	-248	395	146
YR:88-89	969	-273	696	-8660	-1113	-9773	-594	76	-519
	PORTUGAL								PORTUGAL
YR:81-85	310	147	457	-1549	-175	-1724	578	337	915
YR:86-89	108	180	288	-3530	-640	-4169	1342	674	2016
YR:88-89	-20	192	172	-4661	-834	-5495	1491	718	2209

On the other hand entry was associated with a period of deterioration in the trade balance of industrial goods of all three countries. The deterioration was quite dramatic for Spain and Portugal. In the case of labor intensive miscellaneous manufactured items entry was associated with an improvement for Greece and Portugal and deterioration for Spain.

In Table 5 trade of the major primary and industrial SITC (Standard International Trade Classification) groups is presented. In foods, EC entry was associated with deterioration for Greece and Portugal primarily vs. EC countries. On the other hand Spain's balance improves with the EC countries and eventually deteriorates with third countries.

TABLE 5: Major SITC groups trade
(values in current million ECU)

	FOOD			CHEMICALS			MANUFACTURING			MACH & TRANSP EQUIPMENT		
	EC	NON-EC	TOTAL	EC	NON-EC	TOTAL	EC	NON-EC	TOTAL	EC	NON-EC	TOTAL
		GREECE			GREECE			GREECE			GREECE	
YR:76-80	135	-29	105	-360	-21	-382	-82	128	46	-1339	-1149	-2488
YR:81-89	-415	54	-360	-800	-100	-900	-739	153	-586	-1730	-1130	-2860
YR:88-89	-555	-136	-691	-1023	-160	-1183	-999	-258	-1257	-2133	-1555	-3687
		SPAIN			SPAIN			SPAIN			SPAIN	
YR:81-85	1285	-594	691	-787	259	-528	1019	3395	4414	61	575	635
YR:86-89	1441	-549	893	-1761	245	-1515	216	2009	2225	-2952	-1617	-4569
YR:88-89	1534	-689	846	-1977	325	-1652	-31	1893	1862	-4716	-2510	-7227
		PORTUGAL			PORTUGAL			PORTUGAL			PORTUGAL	
YR:81-85	-32	-771	-803	-477	-71	-548	12	325	337	-1084	-429	-1513
YR:86-89	-282	-642	-924	-752	-102	-854	-396	121	-275	-2381	-659	-3040
YR:88-89	-364	-710	-1074	-869	-107	-976	-640	81	-559	-3153	-808	-3960

In all three industrial SITC groups: chemicals, manufactured goods and machinery and transport equipment all three countries experienced deterioration in their balances with both EC and third countries in almost all cases.

Tables 6,7 and 8 show the Export/Import (X/M) ratios of the three countries vs. the rest of the world, vs. the EC and vs. third countries. In table 6 the X/M ratios of all non-fuel goods, primary goods, industrial goods and miscellaneous manufactured items are presented. X/M ratios have deteriorated in all cases for Spain (with both EC and third countries) whereas results are mixed in the cases of Greece and Portugal.

Greece's overall X/M ratio that was extremely low before entry, improved a little after entry and deteriorated later. Greece's improvement in the first years of entry was basically due to an improvement in miscellaneous products and a small improvement in industrial products (where Greece runs a huge deficit anyway). Both improvements evaporated later and in 1988-89 all X/M ratios were below the pre-entry levels. Greek primary products X/M ratio declined dramatically. From 146.7% before entry to 91.3% after entry.

Spain's X/M ratio declined from 110.1% to 85.2% and to 78.6% during the last two years. The decline of the X/M ratio was evident across the board and it was especially dramatic in industrial goods trade vs. both EC and non-EC trade partners.

Portugal's X/M ratio was also low before entry, improved slightly in the first two years and declined later in all three categories: primary, industrial and miscellaneous manufactured goods with EC countries.

TABLE 6: Total, Primary, Industrial and Miscellaneous EXPORT/IMPORT Ratios

	TOTAL TRADE	EC TRADE	NON-EC TRADE	PRIMARY	PRIMARY EC	PRIMARY NON-EC	INDUSTR	INDUSTR EC	INDUSTR NON-EC	MISL-MNF	MISL-MNF EC	MISL-MNF NON-EC
				GREECE			GREECE			GREECE		
YR:76-80	51.0%	55.7%	52.1%	146.7%	176.2%	128.4%	28.5%	22.8%	36.5%	155.3%	173.5%	120.0%
YR:81-89	56.4%	55.3%	67.8%	91.3%	82.5%	113.6%	31.4%	22.4%	49.9%	180.6%	193.8%	149.3%
YR:88-89	47.1%	53.0%	45.9%	88.2%	80.3%	119.0%	24.0%	21.3%	29.1%	136.1%	137.6%	132.6%
				SPAIN			SPAIN			SPAIN		
YR:81-85	110.1%	118.8%	110.9%	119.6%	147.0%	96.3%	129.8%	94.4%	199.7%	152.5%	130.3%	179.4%
YR:86-89	85.2%	92.9%	85.1%	113.6%	131.1%	92.0%	80.4%	70.7%	104.3%	112.3%	93.7%	139.1%
YR:88-89	78.6%	85.7%	78.3%	110.4%	125.8%	91.2%	71.5%	63.7%	89.8%	93.8%	80.4%	111.8%
				PORTUGAL			PORTUGAL			PORTUGAL		
YR:81-85	74.9%	85.0%	72.7%	174.1%	193.1%	155.2%	62.0%	53.6%	85.6%	388.5%	373.8%	419.2%
YR:86-89	76.0%	85.7%	73.2%	129.9%	119.5%	166.8%	51.7%	47.9%	65.5%	363.0%	323.9%	505.5%
YR:88-89	69.9%	79.1%	66.4%	112.9%	100.0%	157.3%	46.5%	43.1%	60.0%	312.0%	278.5%	449.4%

In Table 7 the X/M ratios of the primary SITC groups are shown. In the group "foods", the biggest component of primaries, there is an overall deterioration for Greece and Spain that is a result of a sharp deterioration of the trade picture of the two countries with the rest of the EC countries. Greece and Spain experienced some improvement in their X/M ratios with third countries in the first years after entry; an improvement that later evaporated in the case of Greece. The Portuguese X/M ratio that was extremely low before entry slightly improved after entry (although it declined vs. the EC countries).

In the beverages and tobacco group the X/M ratios, which were very high for Greece and Portugal before entry, declined for all three countries. In the crude materials group where all "three" are running deficits the X/M ratio declined for Greece and rose for Spain and Portugal. In the oils, fats and wax group the X/M ratio declined for Portugal and Spain and rose for Greece.

TABLE 7: Primary SITC Groups EXPORT/IMPORT Ratios

	FOODS	FOODS EC	FOODS NON-EC	BEV-TOB	BEV-TOB EC	BEV-TOB NON-EC	CRUDES	CRUDES EC	CRUDES NON-EC	OIL-FATS	OIL-FATS EC	OIL-FATS NON-EC
	GREECE			GREECE			GREECE			GREECE		
YR:76-80	121.5%	190.9%	91.7%	1241.8%	459.5%	9930.0%	54.6%	126.0%	35.1%	227.1%	173.1%	619.0%
YR:81-89	78.2%	64.8%	122.7%	283.8%	131.6%	1974.5%	53.3%	106.0%	35.1%	752.7%	715.8%	1446.8%
YR:88-89	60.8%	59.5%	65.4%	169.3%	118.7%	518.6%	52.0%	105.6%	33.0%	529.1%	637.0%	181.3%
	SPAIN			SPAIN			SPAIN			SPAIN		
YR:81-85	121.2%	349.2%	61.2%	103.5%	249.3%	63.4%	19.0%	42.5%	9.5%	466.5%	380.1%	487.6%
YR:86-89	115.7%	180.4%	67.8%	103.3%	137.2%	83.4%	30.4%	59.8%	15.0%	330.1%	396.4%	305.6%
YR:88-89	110.3%	170.8%	66.3%	91.8%	111.0%	79.8%	33.6%	63.8%	16.5%	301.7%	337.5%	307.8%
	PORTUGAL			PORTUGAL			PORTUGAL			PORTUGAL		
YR:81-85	25.8%	83.7%	17.1%	548.2%	1160.4%	272.6%	47.8%	221.3%	14.2%	290.6%	178.8%	354.8%
YR:86-89	28.8%	42.9%	21.3%	442.8%	482.8%	419.8%	82.3%	202.7%	24.4%	166.3%	119.0%	238.8%
YR:88-89	28.1%	39.1%	20.8%	324.6%	311.0%	447.0%	92.6%	208.8%	28.8%	95.2%	74.8%	165.8%

Finally in Table 8 the X/M ratios of industrial SITC groups are shown. Here the X/M ratios for all three countries, in all three groups, with both EC and non-EC countries are declining. The decline is especially serious in manufactured goods for all "three" and in machinery and transport equipment for Spain.

TABLE 8: Industrial SITC Groups EXPORT/IMPORT Ratios

	CHEMICAL	CHEMICAL EC	CHEMICAL NON-EC	MANUFACT	MANUFACT EC	MANUFACT NON-EC	MCH-TRNS	MCH-TRNS EC	MCH-TRNS NON-EC
	GREECE			GREECE			GREECE		
YR:76-80	27.7%	14.8%	77.6%	105.4%	85.4%	139.3%	4.1%	1.7%	6.7%
YR:81-89	19.6%	8.7%	59.5%	74.8%	52.2%	138.0%	5.9%	3.9%	9.0%
YR:88-89	15.6%	7.4%	46.1%	55.1%	48.6%	70.0%	4.8%	4.5%	5.2%
	SPAIN			SPAIN			SPAIN		
YR:81-85	71.3%	47.0%	118.1%	267.3%	151.7%	502.9%	100.9%	91.2%	119.3%
YR:86-89	61.1%	41.7%	108.6%	135.4%	99.5%	232.3%	67.7%	70.0%	62.7%
YR:88-89	63.4%	44.1%	112.1%	119.6%	92.3%	189.2%	57.9%	59.5%	54.4%
	PORTUGAL			PORTUGAL			PORTUGAL		
YR:81-85	42.2%	35.2%	66.8%	127.1%	100.8%	201.7%	36.5%	36.7%	36.4%
YR:86-89	36.7%	31.7%	58.7%	91.7%	81.9%	125.9%	34.3%	34.7%	33.1%
YR:88-89	36.1%	30.4%	61.5%	81.5%	72.9%	112.0%	31.3%	31.7%	29.9%

Terms of Entry and Trade Effects on Greece, Spain and Portugal

In the following sections the adjustments that the three countries had to undergo in their economies and trade policies because of their accession agreements are presented. In addition the changes in the direction of trade and trade performance of the "three" after entry are discussed.

A. Greece:

Greece and the EC had an association agreement since 1961. As a result of this agreement almost all barriers for exports of Greek industrial products to the EC were removed by 1970. During the same period most tariffs and quotas for exports of EC industrial goods to Greece were removed. Yet, quite significant non-tariff barriers remained and were still in place in Greece by the time of entry. Little progress was accomplished concerning agriculture and services by the same time.

The accession agreement provided for entry in 1/1/81. Greek trade policies in agriculture, industry and services had to gradually be aligned with the EC ones within a period of seven years. Several extensions were granted to protect sectors of the Greek economy expected to suffer because of entry.

Five and for some "sensitive products" seven year transition periods were agreed for the elimination of protection for Greek agricultural products (from EC competition) and full alignment with the CAP. Although Greek agricultural policy objectives did not differ from those of the CAP, as outlined in article 39 of the treaty of Rome, there were some differences in mechanisms applied to achieve the objectives.

During the transition period Greece had to abolish import restrictions for agricultural products, remove its input subsidies (for fertilizers, pesticides etc.) that were not compatible with EC regulations, adopt minimum price guarantees for livestock products, introduce withdrawal mechanisms for some surplus fruits and vegetables, adjust its generalized investment aids to selective investment aid schemes and zones, take measures to improve market efficiency etc. On the other hand the Greek farmers became eligible for CAP funds upon entry.

As was expected agricultural trade between Greece and the EC increased dramatically upon entry despite the transition period of continued protection for several products. The value of Greek EC primary product imports jumped from 33.9% in 1980 to 52.8% of total imports in 1981 and it has been rising since. In 1989 when all

extension periods were expired Greek imports from EC reached 76% of total imports (Appendix: Table 1).

The value of Greek primary product exports to the EC also increased but in a less dramatic fashion. It has risen from 43.9% of all primary exports in 1980 to 47.8% in 1981. The percentage of EC exports over all exports has been rising since reaching 71.5% in 1989.

Greece lost its comparative advantage in foods vis-a-vis all countries and in crudes within the European Community. Being a net exporter in primary products before entry with an average trade surplus of 210 million ECU per year during 1976-80, Greece became a net importer immediately after entry (the average deficit was 254 m.ECU during 1981-89 and 327 m.ECU during 1988-89).

Greek X/M ratios also declined for all primary SITC groups with both EC and non-EC countries except oils during the first years after entry. Olive oil producers gained significantly from the CAP both by increased demand for their product and CAP subsidies.

As far as real production and trade of agricultural goods the picture is grim for Greece. However if the transfers Greek farmers receive from FEOGA are included the picture becomes much better regarding the agricultural income and the current account. The question is for how long the CAP can last in its current structure and whether Greek agriculture will regain its competitive edge when the agricultural subsidies will be reduced or eliminated.

Tariffs and other barriers to entry for EC exports of industrial goods to Greece had to be phased out during a five year period. The gradual elimination of tariffs protecting domestic production was the only part of the 1961 Association Agreement that was fulfilled. Prior to accession, Greek tariff rates were either totally non existent or reduced by 60 percent compared to the 1962 levels. However according to Mitsos (1981) the negative effects of the Association Treaty on the Greek industry due to tariff reductions were eliminated by the increase in non-tariff barriers.

The more important effect of the accession on industrial trade was probably the elimination, during the transition period, of the complex system of Greek non-tariff barriers such as:

(a) Quotas on luxury goods and goods for which there was sufficient domestic production.

(b) An extensive system of export subsidies.

(c) Advanced deposit requirements and invoice controls by the Chambers of Commerce on many products that substantially increased the cost of imports (they had to be phased out within three years).

(d) A very closed system of Government procurement that was to be aligned with Community standards.

(e) The complex system of 46 types of indirect taxation that among other things had a discriminatory effect against imports. Indirect taxes had to be replaced with the VAT in January 1986.

Furthermore as part of the agreement, during a 5 year period Greece had to harmonize her external tariffs with the CET and apply

the Community's preferential agreements and the Generalized Preferences Scheme. The Greek industry was very weak even before entry thus there was little room for deterioration especially in chemicals and machinery and transport equipment.

Industrial goods trade of Greece with EC countries increased after entry: Greek exports to EC countries that were 46.6% of total exports during the five year period before entry, after a small slump in 1981 and 1982, increased and reached 49.3% of total exports for the period 1981-89 (58.1% during 1988-89). On the other hand imports from the EC from 38.6% of total imports before entry reached 68% after entry and 78.7% during the last two years. Greek industrial trade deficit from an average 1781 m.ECU before entry went up to 3268 m.ECU after entry (4155 m.ECU for 1988-89).

The overall X/M ratio being 28.5% for the five year period before entry went up to 31.4% during 1981-89 (down to 24% for 1988-89) whereas the X/M ratio with the EC was stable at around 22-23% before and after entry (fell to 21.3% during 1988-89).

Greece lost her comparative advantage in manufactured products, her strongest industrial SITC group. The overall X/M ratio of Greece's went down from 105.4% during the five-year period before entry to 74.8% for 1981-89 and 55.1% for 1988-89. The Greek X/M ratio also declined for chemicals, from 27.7% to 19.6% and 15.6% for 1988-89 and remained at very low levels, below 10%, for machinery and transport equipment.

After entry the Greek balance of industrial products deteriorated significantly in ECU terms and lightly in relative

terms since her X/M ratios were extremely low since before entry.

Greece improved her balance with both the EC and third countries and retained its comparative advantage in semi-manufactured articles. From an average surplus of 106 m.ECU during the period before entry Greece reached a surplus of 425 m.ECU during the period after entry (337 m. during 1988-89) and registered an improvement in its X/M ratio.

Greece had also to gradually adjust its (very strict) banking, foreign exchange, insurance and other services regulations with the EC ones. In the 80's Greece experienced a decline in its other goods and services (except travel) balance primarily due to the decline in the shipping industry. The other goods and services sector that has been historically positive for Greece became negative since 1983. During the five-year period before entry Greece had an average surplus of 416 m.ECU and after entry an average deficit of 263 m.ECU.

Greece participated fully from the start of her membership in all Community funds. On the other hand she began contributing to the European Budget as follows: i) Revenues from customs duties, estimated on the basis of the EC common customs tariff; ii) agricultural levies as well as revenues from the monetary compensatory amounts and the entry levies, iii) a contribution estimated on the basis on the GDP until 1986 and based on the VAT since 1986 (Georgakopoulos, 1986). On balance, Greece received significant net transfers during the period of entry that to a

great extent matched its trade losses.

B. Spain:

Spain had a trade agreement with the EC since 1970 that led to liberalization in the trade of industrial goods. Yet, like in the case of Greece, significant non-tariff barriers remained in place by Spain (EEC Economic and Social Committee, 1979) and little progress was achieved concerning agriculture and services until the time of entry.

Spain joined the EC in 1986. As it is true for Greece the Spanish EC treaty provided for several transition periods for the full harmonization of the Spanish with the EC economies. The required tariff and non-tariff barrier changes were highly asymmetric. The reason being that most of Spain's exports to the EC had relatively free access since before 1986, under the 1970 agreement, whereas Spain's imports from all sources were still heavily restricted (Hine, 1989).

Agriculture was the most controversial area in the negotiations because of the fears by both Spanish and some EC farmers (mostly French and Italians). However as Hine observes given that (a) agricultural support prices in Spain were generally lower than those in the Ten and (b) that Spain had to adopt the CAP in its entirety, one might wonder why any serious adjustment problems for European farmers should have been anticipated from Spanish membership of the EC.

The Spanish treaty provided extension periods designed to protect in some cases the Spanish and in other cases the EC farmers from the expected increased competition. Seven to ten year extension periods were agreed during which the prices of Spanish agricultural products had to be harmonized with the EC ones and quotas to be eliminated. However for some "sensitive" products such as fruit, vegetables, oils, fats and wine a ten year transition period with a four to five year standstill was agreed.

On the other hand Spain had to phase out quotas on the highly subsidized by the CAP "northern" agricultural products such as beef and dairy products within a period of four years. Before entry Spanish prices for those products were, in general, higher than the EC ones.

Spain had to immediately adopt the CAP support system of variable import levies, customs duties, export subsidies and intervention buying. Finally a seven to ten years of transition period was agreed on fisheries.

According to Hine the entry terms for agriculture reflects Spain's weak bargaining position in the negotiations: in Spain's most competitive products, there is a standstill for four to five years followed by six years of transition during which important "safeguard" arrangements will operate whereas the transition period for the "northern" products was much shorter.

The Spanish entry led to significant trade creation in agriculture but despite the fears from both sides it did not produce any significant overall trade balance shifts. Since 1986

there was a proportionate increase in Spanish primary products exports and imports with the EC. Spanish EC exports went up from 50% of total exports during 1981-85 to 61.6% during 1986-89 and imports from 50.2% to 61.3%.

Spain was used to running an overall primary products surplus with the rest of the world that was a result of a surplus with the EC countries and a small deficit with the other than EC countries. This situation continued after entry without major changes.

Looking at the X/M ratios there is a small decline in the overall ratio of primary products, from 119.6% to 113.6% (110% during 1988-89). The decline was sharper in the X/M ratio with the EC: from 147% before entry to 131.1% after entry (125.8% during 1988-89), primarily due to declines in the food and beverage and tobacco groups whereas some improvement was registered in crudes.

Although agriculture was the most controversial area of the Spanish-EC negotiations, industry was the area where the most dramatic changes took place after entry. Spanish industrial tariffs, quotas, subsidies and other restrictions to trade were to gradually reduce over a period of seven years. Reductions in pre-trade industrial tariffs were to take place on both sides, until full elimination, over a seven year period according to the following schedule:

3.1.86	10%	1.1.90	12.5%
1.1.87	12.5%	1.1.91	12.5%
1.1.88	15%	1.1.92	12.5%
1.1.89	15%	1.1.93	10%

There was also a seven year period for the Spanish customs tariff to be aligned with the Common Customs Tariff. The process of absolute reduction in the nominal tariff facing non-EC suppliers has been similar to the one facing the EC suppliers. Thus in several industries such as textiles and clothing Spain had to face increased competition from Portugal and from countries benefiting from the EC's Generalized System of preferences and the Lomé Convention.

As table 9 indicates the pre-trade Spanish customs duties for both EC and third countries were quite asymmetrical relative to the rates the Spanish exporters were facing abroad. This reflects the highly protectionist Spanish pre-entry trade regime.

TABLE 9: Average Nominal Customs Duties on Industrial Products [2]

	SPANISH IMPORTS FROM		EC IMPORTS FROM	
	Third Countries	EC	Spain	Third Countries
Fertilizers	9.2	8.0	1.9	4.7
Organic chemicals	10.6	8.0	3.1	7.7
Inorganic chemicals	12.8	9.6	2.6	.4
Pharmaceuticals	13.3	12.0	2.6	.5
Photographic products	14.7	13.3	1.6	4.1
Machinery	15.0	11.9	1.6	4.0
Rubber	16.7	11.7	1.3	.3
Plastics	17.9	13.4	3.4	8.4
Electrical equipment	19.5	16.2	.0	5.1
Domestic goods	21.7	16.2	3.7	9.2
Cotton	24.8	19.1	2.4	5.9
Motor vehicles	26.6	20.2	3.4	8.6
Knitwear	27.1	20.4	.7	11.7
Clothing	31.2	23.4	.4	10.9

[2]Source:J.M. Alvarez and E.Bonet (1985),'Efectos de la Union Aduabera', Papeles de Economia Espanola #25, p.87

In the Spanish accession agreement there was an exception for cars that had been the source of friction between the two sides. Spain had to decrease its tariffs from a range of 19-25% to 17.4% and increase its quotas from 15,000 cars to 32,000 in 1986, 36,000 in 1987 and 40,000 in 1988. After 1988 quotas were abolished. Also Spain had to gradually phase out quotas in color TV sets within a period of three years and textiles within a period for four years.

Spain had also to phase out its industrial subsidies to its steel industry within seven years and align its steel prices for products covered by the ECSC treaty. In addition Spain had to eliminate other non-tariff barriers to trade such as selective duty exemptions on some inputs and lower duties on some raw materials that enhanced its effective protection. Also Spain's monopolies have six years in which they have to adapt to Community rules.

Despite the transition periods for the full elimination of barriers to trade, immediately after entry there was a sharp increase in industrial goods trade between Spain and the EC. Spanish EC exports went up from 48.1% of total exports (during 1981-85) to 62.2% (during 1986-89). And Spanish EC imports from 66.3% to 70.8% of total imports.

The effect of entry on the Spanish trade balance of industrial goods was quite dramatic. A 5200 m.ECU surplus in 1985 was turned to a 728 m.ECU deficit in 1986. The deficit grew every year after entry and reached 10461 m.ECU in 1989. In trade with EC countries Spain had a 511 m.ECU surplus in 1985, a 1792 m.ECU deficit in 1986 and a 8639 m.ECU deficit in 1989. With third countries Spain had a

4689 m.ECU surplus in 1985, 1064 m.ECU in 1986 and 1822 m.ECU deficit in 1989.

The change was more dramatic in the machinery and transport equipment group where a 1050 m.ECU surplus in 1985 was turned to a 6928 m.ECU deficit in 1989 because of deterioration of the balance with both EC and other than EC countries. The X/M ratio in machinery and transport equipment declined from 100.9% during 1981-1985 to 67.7% during 1986-89.

Spain also experienced a decline in its chemicals balance: A 303 m.ECU deficit in 1985 has risen to a 1920 m.ECU deficit in 1989 primarily due to an increased deficit with EC countries. Spanish X/M ratio in chemicals declined from 71.3% during the period before entry to 61.1% during the period after entry.

Finally Spain experienced a deterioration in manufactured goods: A 5604 m.ECU surplus in 1985 was reduced to a 1472 m.ECU surplus in 1989 due to a shrinkage of the Spanish surplus with both EC and third countries. The Spanish X/M ratio in manufactured goods declined from 267.3% (before entry) to 119.6% (after entry).

It appears that the elimination of the wall of protectionism for the Spanish industry had dramatic effects upon the Spanish trade balance in all major industrial groups: chemicals, manufacturing and machinery and transport equipment. It should be noted that significant part of imports in the latter group reflects capital equipment imported as part of foreign investment.

Spain lost its overall comparative advantage in machinery and transport equipment and miscellaneous manufactured items. Within

the EC Spain lost its advantage in manufactured goods and miscellaneous manufactured goods and vis-a-vis third countries in machinery and transport equipment.

Spain also experienced a decline in miscellaneous manufactured items: from a 1363 m.ECU surplus in 1985 to a 1489 m.ECU deficit in 1989 due to a deterioration of its balance with both EC and other than EC countries.

Finally as a result of the accession agreement four to seven year periods were agreed for the adaptation of Spanish laws and regulations in banking, foreign exchange, foreign investment, insurance, real estate and other services with the EC ones.

The "other goods and services" (except tourism) balance of Spain remained relatively stable after entry. A small improvement in the first year after entry was followed by a slight decline during the last two years. On average the Spanish deficit in other goods and services rose from an average 1571 m.ECU during the period before entry to an average 1872 m.ECU during 1986-88.

Spain adopted the VAT and started contributing to the EC budget upon entry. The VAT replaced the system of export tax rebates (DFE) and compensatory import duties (ICGI) that had often drawn criticism from Spain's trading partners. Simultaneously Spain became eligible for transfers from the EC agricultural, regional and social funds. As part of the agreement Spain should be a net beneficiary from the EC budget throughout the 80s.

3. Portugal.

Portuguese trade policies were much more liberal than Spain's or Greece's before entry. She was a member of the EFTA since 1960. As a result the accession of the U.K. (with which Portugal had strong trade relations) and Denmark in 1973 into the EC practically connected Portugal with the Community. In addition Portugal had a trade agreement with the EC since 1972 that provided for the elimination of most trade barriers by 1985.

Even though Portugal was relatively open to trade, EC entry was associated with a significant increase in trade with EC countries and increased deficits. Portuguese EC exports rose from 62.9% (during 1981-85) to 72.9% (during 1986-89) of total exports. Also Portuguese EC imports rose from 73.5% to 78.6% for the respective periods. The Portuguese non-fuel trade deficit was 2829 m.ECU (or 12.1% of the GNP) per year before entry, 3732 m.ECU (or 11.3% of the GNP) after entry and 4644 m.ECU (or 13.8% of the GNP) during 1988-89.

The Portuguese agriculture on accession to the EC was in many respects the least developed of the twelve as a result of decades of underinvestment, high land fragmentation and because a large part of production takes place in marginal lands. Agriculture (including forestry and fishing) accounted for almost a quarter of active civilian employment but the sector's contribution to GDP accounted for only 6.5 percent.

The agricultural provisions of the accession treaty were based on the same principle as those applying to Spain. There was a seven

year period for most products and a ten year period for "sensitive" agricultural products. Like Spain, Portugal had to adopt the Community's system of customs classification and adopt the CET by March 1986. This was expected to increase the cost of imports and result in a shift in trade from third countries to EC ones.

As in the cases of Greece and Spain, Portugal's agricultural trade increased substantially after entry: Portuguese EC exports rose from 61% during 1981-85 to 69.1% of total exports during 1986-89. And Portuguese EC imports rose from 56.1% to 76.1% of total imports.

Portugal's balance of agricultural goods has shown a deterioration after entry: From a 605 m.ECU surplus in 1985 to a 39 m.ECU surplus in 1989 primarily due to a reversal in the Portuguese trade balance with EC countries: A 195 m.ECU trade surplus in 1985 gradually shrunk after entry and became a 212 m.ECU trade deficit in 1989.

Looking at the particular SITC groups the Portuguese overall X/M food ratio being very weak before entry rose from 25.8% (1981-85) to 28.8% (1986-89), whereas the Portuguese food ratio with the EC countries only declined from 83.7% to 42.9%. Portugal also lost its comparative advantage in oils: a 290.6% X/M ratio before entry was reduced to 166.3% after entry (95.2% in 1988-89) due to a deterioration of its ratio with both EC and third countries. Portugal retained a strong though declining X/M ratio in beverages and tobacco and improved its weak crudes X/M ratio by improving its ratio with other than EC countries.

The process of alignment of the Portuguese industry with EC standards was, like in agriculture, very similar to the Spanish one. A seven year period was granted to Portugal for its gradual harmonization of tariffs, quotas, other barriers to trade vs. EC products and common external tariffs. The dismantling of tariffs with the EC was to take place according to the following schedule:

3.1.86	10%	1.1.90	10%
1.1.87	10%	1.1.91	10%
1.1.88	15%	1.1.92	15%
1.1.89	15%	1.1.93	15%

The Portuguese import and export licensing systems had to be brought to an end in two stages by the end of 1988. Car import quotas in Portugal and quotas on Portuguese textile exports to the EC were phased out by the end of 1987.

Under a bilateral agreement between Portugal and Spain all duties levied on Portuguese exports of industrial goods entering Spain except textiles and a few other products were to be lifted upon their entry to the EC. These products were to remain subject to quotas until the end of 1990. Before entry Portuguese exports faced import duties up to 50 percent in Spain whereas Portuguese tariffs on Spanish industrial goods were significantly lower.

A three year period was granted for the application of VAT that replaced existing taxes and a seven year period was granted for the dismantling of most state monopolies that import and distribute oil and petrochemicals.

The Portuguese industrial goods deficit rose from a moderate 968 m.ECU in 1985 to 5781 m.ECU in 1989 primarily because of deterioration of Portugal's deficit with the EC countries (from 1092 m.ECU to 5000 m.ECU).

The overall X/M ratio declined from 62% during 1981-85 to 51.7% in 1986-89 (46.5% for 1988-89) as a result of decline in both EC and third country X/M ratios. Looking at the specific SITC groups the decline was more dramatic in machinery and transport equipment where a 1037 m.ECU deficit in 1985 rose to a 4080 m.ECU deficit in 1989 primarily due to a sharply increased deficit with the EC countries.

In manufacturing goods Portugal lost its comparative advantage within the EC. A 582 m.ECU surplus in 1985 shrunk and was replaced by a 687 m.ECU deficit in 1989 due to deterioration of the Portugal's balance with both EC and third countries. Similarly a 513 m.ECU deficit in 1985 in chemicals rose to a 1014 m.ECU deficit in 1989 due to an increased deficit with the EC countries.

Portugal experienced a significant improvement in miscellaneous manufactured items. From a 1601 m.ECU surplus in 1985 to a 2530 m.ECU surplus in 1989 as a result of improvement in trade with both EC and third countries. Finally the Portuguese deficit in "other goods and services" (except tourism) remained relatively stable, before and after entry, about one billion ECU per year.

Conclusion

Entry to the EC was associated with significant trade creation and some relative trade diversion for the new entrants. Entry was also associated with increased trade deficits for all three countries. It would be an overstatement to claim that the trade account problems the "three" experienced since entry were a result of only their terms of entry. Yet many changes in their trade accounts were profoundly affected by the adjustments associated with entry in both the primary and industrial sectors.

Trade deterioration was primarily the result of asymmetric change in tariff and non-tariff barriers to trade given the relative inefficiency of the agriculture and industry of the "three". The asymmetric change in barriers to trade vs. both EC and third countries led to a disproportionate increase in imports relative to exports of the three countries resulting in higher trade deficits.

Several comparative advantage reversals occurred for the three countries during the period after entry, all of them negative: Greece lost its overall comparative advantage in foods and manufactured products, Spain in beverages and tobacco, machinery and transport equipment and miscellaneous manufactured items and Portugal in oils and fats and manufactured goods. Within the EC

division of labor Greece lost its comparative advantage in foods, Spain in manufactured goods and miscellaneous manufactured goods and Portugal in oils.

Greek agriculture, Spanish industry and Portuguese agriculture and industry were clearly hurt in terms of trade balance. Greek industrial trade deficit continued to be large as before entry. Spanish agriculture was not affected in terms of trade balance by entry. Finally Portugal and Greece registered benefits in the area of labor-intensive miscellaneous manufactured items.

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