The Southern Enlargement Of The European Community And Its Implications For The Third World

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Master of Philosophy

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PREFACE

The Southern enlargement refers to the integration of Greece, Portugal and Spain into the European Community.[1] Article 237 of the Treaty establishing the European Economic Community (EEC) states that "any European State may apply to become a member of the Community." The Greek government applied under this Article in June 1975. As a result of successful negotiations the Treaty of Accession was signed in Athens on 24 May 1979 and Greece joined the Community as a full member in 1981. The Portuguese application was made in March 1977 and the Spanish in July 1977. The negotiations with them are still in progress. The Southern enlargement of the EEC will have considerable impact both on intra-community as well as on Third World relations. In case of the former, enlargement may affect the Common Agricultural Policy (CAP), certain sensitive sectors of industry (such as steel, textile etc.), its finances, its energy requirements and above all its homogeneity. In case of the latter, enlargement on one hand may adversely affect exports of developing countries (particularly the Mediterranean countries) to the

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1. In the course of the study Greece has been clubbed with Spain and Portugal as "Candidates" only for analytical purposes. It is technically incorrect because Greece has already joined the community on 1 January 1981.

EEC and reduce aid available to them and on the other hand it will provide them with a larger market.

Looking back, establishment of the EEC[2] in 1957 was one of the most important events in the history of international co-operation. It was the culmination of a series of efforts undertaken after the Second World War in the direction of economic and eventual political unification of Europe. The establishment of European Coal and Steel Community (ECSC) in 1951 provided the blue print for the establishment of EEC in 1957. It was Europe's first supranational body with the prime purpose of creating a Common Market in Coal, Steel and Iron ore.

The EEC as a result of the Rome Treaty of 1957 came into force on 1 January 1958.[3] Its main features include: abolition of all internal barriers to trade, free movement of persons, services and capital, the inauguration of a common agricultural and transport policy, creation of European Investment Bank and above all linking of overseas

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2. EEC was formed by Six West European nations namely; Belgium, France, Italy, Luxembourg, Federal Republic of Germany and the Netherlands in 1957.

3. U.K. was invited by The Six to Join the EEC but it did not respond favourably. The UK and six other European nations, such as Sweden, Norway, Denmark, Switzerland, Austria, and Portugal joining later set up the EFTA (European Free Trade Area).

countries and territories[4] with the EEC.

The Rome Treaty does not contain a single article showing Community's commitment towards developing countries. However Part IV of the Treaty and Articles 110, 113 and 238 provide a narrow basis for finding out a development policy.[5]

The conditions for association were laid down in the Rome Treaty (in Part IV and Implementing convention annexed to it). The association agreement was characterised by two main elements namely progressive establishment of a free trade area between the EEC and the associates based on reciprocity and secondly establishment of European Development Fund for grant of financial aid to the associates with a view to promoting their economic and social development.[6]

Shortly after Rome Treaty came into force most of the overseas territories became independent. France insisted

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4. As a result of French efforts at Venice in 1956 the Six original members agreed that those non-European countries and territories which had special relationships should become associated with the EEC (Part IV of the Rome Treaty (articles 131-36) and the Implementing convention).

5. R.Cohen, "Europe and the developing countries," in Ph.P. Everts edited, The European Community In the World. The external relations of the enlarged European Community; (Rotterdam 1972), p.109.

6. ELLEN Frey Wouters, The European Community and the Third World; The Lome' convention and its impact (New York, 1980), p.14.

that association should provide a permanent framework for Euro-African co-operation and proposed a new convention, which the EEC members accepted after some initial hesitation. This led to the negotiations between the EEC and the then seventeen African states and Madagascar (AASM) and a new convention was signed on 20 July 1963 in Yaounde' the capital of Cameroon. It entered into force on 1 June 1964.

There were a few differences between the Implementing convention and the Yaounde' convention. The free trade principle based on reverse preferences was maintained for industrial products and certain tropical products. In case of certain tropical products (like coffee, tea, cocoa, tropical fur etc.) the Community preferences were unilaterally reduced or abolished. The agricultural products came under special arrangement. There was also provision for aid. In order to administer the Yaounde' convention joint institutions were set up.

Simultaneously with the signing of first Yaounde' convention a declaration of Intent was adopted by the Council of Ministers of EEC in 1963. It stated that those states whose economic structure and production was comparable to those of associates could enter into association with the EEC. This led to the signing of the Arusha agreement between EEC and three East African states namely Kenya, Uganda and

Tanzania.

In December 1968 negotiations for renewal of Yaounde' I Commenced between EEC and AASM and this resulted in signing of Yaounde' II which entered into force on 1 January 1971. It was for a five year period with fixed expiry date on 31 January 1975. The differences between Yaounde' I and II relate to reduction of preferential arrangements, increase in financial assistance to compensate this reduction (from 730 million European units of Accounts (EUA) to 918 million EUA) and the explicit recognition that preferential arrangements should not be incompatible with the Generalised System of Preferences (GSP) which is to be set up under United Nations Conference on Trade and Development (UNCTAD) programme.

In addition to the Younde' agreement the EEC also concluded both preferential and non-preferential agreements with the countries of Mediterranean region. The preferential agreements can be subdivided into either Association agreements under Article 238 of Rome Treaty or Preferential Trade agreements under Article 113 of the Treaty. The EEC signed association agreement under Art. 238 with Greece and Turkey for an unlimited duration. In case of Greece it came into force on 1 November 1962. The EEC also signed agreements under Art. 113 with a number of countries such as Spain, Israel, Lebanon etc. In case of Spain the agreement was for a six year period with effect from 10 October 1970.

Between 1958-72 (1963=100) Community's imports increased by 225 per cent and exports by 256 per cent. The volume of index for imports (with 1963=100) was 61 in 1958 and it went upto 208 in 1972. In case of exports it went up from 74 to 243 in the corresponding period.[7]

The EEC of the six worked in unison and exhibited a great deal of unity in the 1960's. During the Kennedy Round of Negotiation the community acted in unison vis-a-vis the United States of America (USA). However the same unity could not be witnessed in the seventies when the Community was confronted with the problems in the energy and monetary spheres. The first enlargement of the EEC took place in 1973 with the entry of United Kingdom, Denmark and Ireland. This enlargement particularly in view of the British Overseas Connections led to the Lome' agreement between EEC and forty six African, Caribbean and Pacific (ACP) countries and preferential trade and commercial cooperation Agreements (CCA) with Mediterranean,

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7. Kenneth J.Twitchett, "External relations or Foreign Policy" in Kenneth J.Twitchett edited, Europe and the World : The External Relations of the Common market, (London, 1976), p.4.

Asian and Latin American countries.

The study consists of five chapters. In Chapter I entitled "The EEC of Nine : Its Economic Relations with the Third World" the impact of the first enlargement on Third World countries has been analysed. This chapter also deals with the signing of Lome's convention between EEC and ACP countries and the conclusion of CCA with a number of Mediterranean, Asian and Latin American countries.

In Chapter II entitled "Accession of Greece, Spain and Portugal : Implications for intra-community Relations" the possible effects that the Southern enlargement of the EEC will have on intra community relations have been analysed (Greece has become a full member since 1981). Their entry will have bearing on a number of issues including agriculture, industry, aid, regional disparities and homogeneity of the EEC.

In Chapter III entitled "Greece, Spain and Portugal : Their Economic Relations with the Third World" their current economic relations with the developing countries have been analysed. Greece and Portugal have limited contacts with developing countries as compared to Spain. Among the developing countries the oil producing countries have become important in their trade relations since the early 1970s.

In Chapter IV entitled "The Southern Expansion of the EEC : Its possible Effects on Its Relations with the Third World" the effect of the Southward expansion on the Third World countries has been analysed. This enlargement may adversely affect exports of developing countries (particularly the Mediterranean countries) to the EEC and may reduce funds available to developing countries. However it will provide them a larger market for their products. The applicant countries in turn will have to face twin competition from EEC as well as the developing countries.

In Chapter V entitled "Conclusions" the main conclusions of the study have been provided. The Southern enlargement may necessitate changes in CAP, in EEC relationship with Mediterranean countries, in decision making and in community institutions.

I take this opportunity to express my sincerest gratitude to my supervisor Dr. H.S.Chopra of the West European studies division of the School of International Studies Jawaharlal Nehru University for his guidance and encouragement that enabled me to complete my dissertation. I am grateful to Dr. Dharam Pal for the invaluable help he rendered in completing my dissertation. I am also grateful to Sh. Ashok Jambhekar Librarian and other staff of the ICWA library in extending me all help concerning literature on the topic of my research.

JPKachi

25 December, 1983 J.P. KACHI

CHAPTER I

THE EEC OF NINE : ITS ECONOMIC RELATIONS WITH THE THIRD WORLD

Since early 1960s Britain made various attempts to join the EEC. However her attempt was thwarted because of stiff resistance from the then French President Charles de Gaulle. It was only after his exit from power in France in April 1969 that British entry could be discussed seriously. Moreover the Franco-German tensions stemming from the superior strength of the West German economy prompted Pompidou the then French President to seek extension of the community. The 'Six' gave green signal for resuming the negotiations for British accession on 2 December, 1969. As a result of the negotiations the EEC witnessed its first enlargement with three new members namely Great Britain, Denmark and Ireland formally becoming members with effect from 1 January 1973. Since U.K. had considerable overseas connections[1] new agreements had to be concluded to link them (commonwealth countries) to the EEC of Nine.

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1. Great Britain's Commonwealth countries were spread all over the Globe in Africa, Caribbean, Pacific and Asia.

The EEC offered to treat the twenty commonwealth countries of Africa Caribbean and Pacific at par with the Yaounde' countries for concluding a new agreement. This led to the signing of the Lome' convention between EEC, and forty six ACP countries at Lome' capital of Togo on 28 February 1975. The convention came into force on 1 April 1976. The Lome' signatories pledged themselves to create "a new model for relations between developed and developing countries, compatible with the aspirations of the international community, towards a more just and a more balanced economic order."[2]

The chief features of the Lome' agreement include : a) financial aid for the ACPs (b) All manufactured goods of ACP countries and 96 per cent of their agricultural products including sugar will receive tariff free and in general quota free entry into the community;[3] (c) reverse preferences done away with; (d) Industrial Co-operation and transfer of technology to ACP countries (e) establishment of various institutions to ensure smooth working of the agreement;

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2. Carol Cosgrave Twitchett, 'The European Community And Development. (London, May 1978), p.260.

3. The EEC in fact provided duty free access to 70 per cent of ACP exports subject to CAP.

and above all (f) the introduction of 'Stabex' (stabilisation of export earnings) scheme designed to give ACP countries compensation for falls in World commodity prices.[4]

The novel feature of the Lome' convention was the 'Stabex' scheme which provided compensation for the export losses caused by excessive fluctuations in prices. It was implemented for thirty three basic materials and under Lome' I X 390 million EUAs were allotted to 'Stabex'. The number of products covered by 'Stabex' was increased to forty four under Lome' II and grants for this were raised to 550 million EUAs.[5] Further EEC also introduced a new scheme known as 'Sysmin' in 1981. It is a similar mechanism like 'stabex' which guarantees a set level of production and exports for a vareity of minerals.[6]

Further as a result of the Lome' convention the

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4. Kenneth J. Twitchett, "External Relations or Foreign Policy" in Kenneth J. Twitchett ed. Europe and the World The external Relations of the Common market, (LONDON, 1976); p.21.

5. Genevieve Chedeville, "Evolution of EEC Policy Towards development cooperation" in K.B.Lall, Wolfgang Ernest, H.S.Chopra eds., The EEC In the Global System (New Delhi, 1984); pp.66-67.

6. European File 3/83. The Community and developing countries, (Brussels, February 1983); p.4.

forty six ACP countries received preferential treatment vis-a-vis the Third World from the EEC. The trade relations that emerged as a result of this agreement are shown in the table below:

<u>Trends in Community's external trade with ACP countries 1973-80</u>[7]

<u>Tabel 1.1</u>

	1973	1974	1975	1976	1977	1978	1979	1980-till third quarter
<u>Community imports</u>								
1. ACP percentage change over previous year	28.0	70.0	-17.0	20.0	19.0	-5.0	24.4	28.4
2. ACP amount in billion EUAs	6.2	10.5	8.7	10.5	12.5	11.9	14.8	19.0
3. ACP percentage share	7.4	8.0	6.7	6.6	7.3	6.7	6.8	7.1
<u>Community exports</u>								
4. ACP percentage change	10.0	37.0	33.0	22.0	27.0	2.0	-7.1	33.1
5. ACP percentage share	5.5	5.3	6.7	7.0	7.6	7.3	6.1	7.1
6. ACP amount in billion EUAS	4.4	6.1	8.1	9.8	12.5	12.7	11.8	15.7
7. Community trade balance EEC/ACP	-1.8	-4.4	-0.6	-0.6	0.0	0.8	-3.0	-3.3

7. *The Courier*; ACP-EEC (Brussels), No.69 September - October 1981, p.40.

As is evident from Table 1.1, the ACP percentage change over previous year in Community imports was phenomenal in 1974 but it became negative in 1975. Then again in 1976 and 1977 there was a positive change but in 1978 it again became negative. In 1980 it reached the 1973 level. There seems to be some sort of two yearly trend operating here, since after two years of positive change the third year shows a negative change. In case of ACP percentage change, (change over the previous year) in Community exports, except for 1979, all other years witnessed positive change. Further the ACP share in Community imports remained more or less unchanged in 1980 as compared to 1973. This is surprising in view of the various preferences that the ACP countries are enjoying. However in case of ACP share in Community exports there was some increase in 1980 as compared to 1973.

One of the main economic interests of the EEC in ACP countries lies in their possession of vital raw materials such iron ore, copper, uranium, platinum, Tungsten[8] etc. The protection of a stable supply of these raw materials

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8. EEC's import dependence measured as percent of consumption is overwhelming for a number of key metals like 79% of iron ore, 81.0% of copper; 61% aluminium, Tungsten (99%); Uranium 75%, Tin (87%) Zinc (68%), Phosphates (99%) and Lead (53%).

is an important motive of the EEC association policy. During the period 1960-73 there was awareness that EEC countries did not have enough, safe supplies of various raw materials (particularly petroleum and minerals) for the expanding needs of modern industry.[9] This partly helps to explains the preferential treatment that the ACP countries have got from the EEC.

Besides the ACP, the Community has trade agreements with a number of developing countries. In the mediterranean region the community signed commercial, industrial, technical and financial cooperation agreements with both the Maghreb as well as Mashreq countries,[10] in 1976 and 1977 respectively. The main features of the agreements include unrestricted access to community markets for industrial goods and financial aid. The financial aid including grants and European Investment Bank (EIB) loans are expected to reach 2300 million European currency unit (ECU) by

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9. Ellen Frey Wouters, The European Community And The Third World' The Lome Convention and Its Impact, (New York, 1980) p.80.

10. Maghreb Countries are Algeria, Morocco and Tunisia Mashreq countries are Egypt, Syria, Jordan and Lebanon.

1986.[11] The community has also signed trade agreement based on reciprocity with Israel.

The Community has signed non-preferential agreements with Brazil, Mexico and Uruguay. A number of agreements with other countries deal with trade in textiles and craft goods. The EEC is also preparing the way for developing Co-operation with Andean Pact Countries.

The EEC has also concluded non-preferential agreements with countries of the Indian subcontinent (India, Pakistan, Bangla-Desh and Sri Lanka), China as well as with the Association of South East Asian Countries (ASEAN).

India signed the commercial cooperation agreement with the EEC in 1973. India is receiving technical and financial assistance from the EEC and also assistance under its food aid programme. In 1978 imports from the Community amounted to 31 per cent of total India's imports in 1978. On the other hand EEC imports from India declined from 0.96 per cent in 1977 to 0.93 per cent of its world total in 1978.[12] The

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11. European File Community aid to the Third World the Lome convention, (Brussels March 1981) p.4 Also European File 3/83 The Community and Developing Countries (Brussels February 1983); p.4.

12. K.B.Lall and H.S.Chopra, EEC and India Paper presented at JNU - EEC Joint Seminar held at New Delhi from 17-19 November 1980.

export of sugar from India has been subject to special agreement.

The cooperation agreement between ASEAN and EEC was signed at Kualalampur in 1980. For the ASEAN, the EEC is a prospective economic partner for diversifying its external relations or dependency. The ASEAN not only ships raw materials to the Community but is viewed by the latter as the supplier of 80 per cent of natural rubber, 40 per cent of tin, 50 per cent of coconut, 80 per cent of abaco fibre, 60 per cent of palm oil and 15 per cent of rice.[13]

The EEC also has close relations with Arabs since 1973. The heavy dependence of the community on imported oil resulted in EEC developing close relations with the Arab countries. The Euro-Arab dialogue (EAD) was a part of this exercise. The formal structure of EAD was evolved on 31 July 1974. It suffers from a few basic defects including the absence of any permanent headquarters or secretariat and for keeping the energy question outside the purview of EAD. The acceptance by the EEC of the latter means that EEC will depend on OPEC for its oil needs. In 1977 the EEC imported 68.5 per cent of its

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13. Girijesh Pant, "ASEAN-EEC Economic Relations in Eighties" Paper presented at JNU-EEC Joint Seminar held at New Delhi from (17-19 November) 1980.

oil needs from the Arabs.[14]

Thus the EEC has considerable links with the Third World. It has however a direct interest in helping the Third World countries on which it depends more than the other major industrial powers for its energy requirements and raw materials. The community was the first to apply in July 1971 the Generalised system of Preferences (GSP) recommended by the United Nations Conference on Trade and Development (UNCTAD) requiring all industrialized countries to introduce special customs concessions for the export of manufactured and semi-manufactured goods from the Third World.

The EEC is an important market for the Third World exports of primary and semi-manufactured goods. The Third World on the other hand is a good market for the export of EEC's capital goods. Between 1973-79 imports from all developing countries to the EEC increased by 175 per cent and EEC's exports to these countries increased by 204 per cent. In 1979 the share of developing countries (excluding China and other state trading countries) was 40 per cent in EEC imports and 36 per cent in exports.[15] The trade relations of EEC with

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14. Gulshan Dhanani, "The Euro-Arab Dialogue. A critique." Paper presented at JNU-EEC Joint Seminar held at New Delhi from (17-19 November 1980).

15. Luigi Boselli, "The EEC's trade relations with India and the Third World" Paper presented at the JNU-EEC Joint Seminar held at New Delhi from 17-19 November, 1980.

the Third World are shown in the table below :

EEC : Trade relations with developing Countries by major areas, 1973 and 1977-79[16] percentage share.

Table 1.2

	1973		1977		1978		1979	
	Impo-rts	Expo-rts	Impo-rts	Expo-rts	Impo-rts	Expo-rts	Impo-rts	Expo-rts
All develop-ing countries of which	100	100	100	100	100	100	100	100
Central South America[(a)]	16	17	11	13	11	12	11	13
Southern Mediterianean[(b)]	16	22	13	21	13	19	15	21
other Africa[(c)]	16	13	12	25	13	13	12	11
Persian Gulf[(d)]	31	13	41	24	38	25	37	21
South Asia[(e)]	3	4	3	5	3	5	3	6
ASEAN[(f)]	6	9	5	7	7	6	6	6
Far East[(g)]	6	9	7	5	9	8	9	9

16. Ibid.

(a) Mexico, Panama, Cuba, Netherlands Antilles, Colombia, Venezuela, Peru, Brazil, Chile, Argentina.

(b) Morocco, Algeria, Tunisia, Libya, Egypt, Syria, Israel.

(c) Sudan, Senegal, Liberia, Ivory Coast, Ghana, Nigeria, Cameroon, Gabon, Zaire, Kenya, Zambia.

(d) Iraq, Iran, Saudi Arabia, Kuwait, Qatar, United Arab Emirates, Oman.

(e) India, Pakistan, Bangladesh, Srilanka, Nepal, Burma, Afghanistan.

(f) Indonesia, Malaysia, Philippines, Singapore, Thailand.

(g) China, South Korea, Taiwan, Hong Kong.

As is evident from Table 1.2 the Southern Mediterranean countries have managed to retain their share of community market between the period 1973 to 1979. The share of other Africa has declined which is surprising in view of preferences they enjoy. The non-preferential countries share has either increased or remained unchanged except central and South America.

The EEC has not treated all the developing countries on the same footing but has shown discrimination in its agreements with different developing countries. Under the EEC agreements the ACP countries have received the most preferential treatment. They have been even provided concessions for certain CAP proeucts such as beef and sugar in addition to duty free access to their manufactured and other primary products. Further they are the only ones which benefit from EEC's 'Stabex' and the 'Sysmin' schemes. However among the ACP countries, all countries have not benefitted to the same extent. In 1977 two-thirds of the EEC imports from the ACP were provided by just eight out of fifty three countries, Nigeria Ivory coast and Zaire provided nearly half all EEC imports from ACP. In case of imports thirty two countries provided less than one per cent share of total EEC imports from ACP countries.[17] This indicates a

17. See WOUTERS, n.9, p.46

serious weakness in the functioning of the EEC-ACP agreement.

Thus though within the ACP all countries have not benefitted equally, yet as compared to non-ACP countries they are in a more favourable position. One of the possible negative effects for the non-ACP countries is the partial loss of the EEC market to the ACP countries. This affects these countries more which had earlier preferential access to the British market.

In addition to EEC's trade and cooperation agreements with the developing countries it is also an important source of official development aid to the Third World. The beneficiaries of the community aid are not only ACP countries but also large number of non ACP countries including the Mediterranean countries and countries of Indian sub-continent. Inspite of the growth in EEC aid it has still not been able to collectively attain the target of 0.7 per cent of Gross National Product (GNP). In 1981 the EEC aid was 0.52% of GNP. This target has been exceeded by the Netherlands (1.08 per cent in 1981) and Denmark (0.73 per cent). The EC commission has proposed that the Community should set itself the figure of 0.1 per cent of the community's GNP as its development target and that it can attain that in phases over the next ten years.[18]

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18. "Memorandum of the Community Development Policy" Bulletin of the European Communities, (Luxembourg 1982), Supplement 5/82 p.24.

The EEC can play an important role in the development of the Third World. It must take steps to increase the exports of developing countries by opening up its markets and also help the less developed countries (LDCs) in their industrialization. It must play an active role in the Third World's demand for a new international economic order (NIEO). The NIEO implies restructuring of the international, financial trading and economic systems to give the developing countries their due role in global economic activity. The EEC has in principle accepted the rationale of NIEO but has not taken any step towards its accomplishment.[19] However at the Venice meeting of the European Community affirmed its commitment to the North-South dialogue as well as to the resultant restructuring of the international economic relations.

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19. Arun Abhyankar and Nigam Prakash, "The New International Economic order," EEC and India, paper presented at EEC - JNU Joint Seminar held at New Delhi from 17-19 November 1980.

CHAPTER II

ACCESSION OF GREECE, SPAIN AND PORTUGAL TO THE EEC : IMPLICATIONS FOR INTRA-COMMUNITY RELATIONS

The three Southern European Countries (namely Greece,[1] Spain and Portugal) are economically less developed as compared to the Community of Nine and their presence will increase the relative share of regions and sectors in difficulty in the community. Further because their agricultural, industrial and social structures are to a great extent dissimilar to those of the Nine their integeration into the EEC could adversely affect its cohesion and achievement of economic and monetary union.[2] The community therefore faces two basic issues namely controlling production capacity in the sectors where surpluses are likely to be created or increased and rechannelling production towards sectors where the community deficits with outside countries are likely to widen.[3]

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1. Greece is already a member since 1 January 1981. It has been included here only for analytical purposes.

2. 'Enlargement of the Community' General Considerations' Bulletin of the European Communities (Belgium 1978) Supplement 1/78, p.7.

3. "Problems of Enlargement", Bulletin of the European Communities, (Luxembourg 1983) Supplement 8/82, p.12.

However of the three South European Countries Greece has already joined the EEC in 1981. It was the first country to sign Association agreement (under Art. 238 of Rome Treaty) with EEC in 1961. However as a result of Coup d'etat in 1967, the EEC decided to 'freeze' Greek association till restoration of democratic rule (in Greece). Greece applied for full membership in 1975 and as a result of subsequent negotiations finally joined the Community in 1981. It has been provided a five year transitional period. The other two countries namely Portugal and Spain applied for full membership in 1977 and negotiations with them are still in progress. The case of Spain is a bit problematic because of its size and economic power. According to one senior EEC official Spain "Can expect to undergo much more vigorous examination by EEC than it seems prepared to give either Greece or Portugal."[4]

The effects of Greece's entry alone on the EEC are not very significant. Its per capita income was $ 3370 as compared to $ 3780 of Ireland. Its total exports were

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4. Eric N. Backlanoff <u>The Economic Transformation of Spain and Portugal</u> (New York, 1978), p.96.

also well below the Irish. Greece's exports in 1979 were worth $ 3852 whereas that of Ireland were worth $ 7164. However, both countries had roughly the same level of imports in 1979. The value of Greek imports in 1979 was $ 9624 whereas that of Irish imports it was $ 9864. Greek exports to the EEC amounted to 1 per cent of the EEC imports from all third countries in 1979.[5]

Thus the entry of Greece alone has not made much impact on the EEC. The EC Commission has observed, "Economically speaking the community of Ten is broadly the same as that of Nine except that in shipping, the inclusion of Greek merchant fleet (34 mn grt) will give the community the world's leading merchant fleet with more than 100 mn grt."[6] However if Greek entry is considered with the possible entry of Portugal and Spain as well then the impact on the intra community relations as well as the third world will be considerable. The impact on the former has been discussed below.

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5. Eberhard Rhein, "The Implications for the Developing Countries of the Second enlargement of the EEC" in K.B.Lall, Wolfgang, Ernst, H.S.Chopra, eds. _The EEC in the Global System_, (New Delhi, 1984), p.50 and Table I pp.60-61.

6. _Bulletin of the European Communities Commission_ No. 1, vol. 14, (Brussels, 1981).

The Southern enlargement (i.e. inclusion of Spain and Portugal as well into the EEC) will result in EEC having the biggest presence on the Mediterranean sea board. It will intensity EEC links with Latin America (because of Spanish entry). Further for the Nine, the trade importance of the three countries, amount to 2.1 per cent of imports and 3.5 percent of exports including intra-community trade.[7]

In case of agriculture the main impact will be on producer countries namely France and Italy which are likely to be affected by the low priced goods produced by the three particularly Spain. In Spain the contribution of agriculture to Gross domestic product (GDP) is less than 10 per cent on the other hand Portugal and Greece smaller but more open than Spain to trade depend more than the latter does on their agricultural sectors as source of income and employment.[8] The contribution of agriculture to GDP is 14.5 per cent in Portugal as compared to 9 percent

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7. Loukas Tsoukolis, "Second Round of Enlargement and the Mediterranean" in Loukas Tsoukalis ed., _Greece and The European Community_, (Oxford, 1979), p.152.

8. Loukas T.Katseli, Macro Economic Adjustment and Exchange rate 'policy in Middle Income countries. Greece, Portugal and Spain in 1970s" in Marcello de Cecco edited, _International Economic Adjustment: Small countries and European Monetary System_ (Oxford, 1983), pp.189-190.

for Spain. In case of the community the share of agriculture is only 3.9 per cent.

The agricultural production of the three is largely complimentary to that of the community. The enlargement is likely to bring about some reduction in surpluses in cereals, meat and dairy products while at the same time leading to community self sufficiency in Mediterranean products. All the three countries have Mediterranean type of agriculture with emphasis on crops such as wine, olive oil, fruits and vegetables rather than animal product. These typically Mediterranean products are also important for France and Italy. Both these countries have regions which will be hard pressed by competition from the three since they have lower labour costs and hence lower prices giving them an undoubted advantage. The impact of accession on mediterranean crops is shown in the table below:

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Table 2.1 Impact of Accession on Mediterranean Crops (as percentage of final agricultural production)[9]

	Item	Country	Percentage of final agricultural production
I	Cereals	France	15%
		Italy	12%
		Spain	10.6%
		Portugal	12.2%
		Greece	13.2%
II	Fresh Vegetable	France	6.3
		Italy	12.7
		Spain	13.9
		Portugal	9.7
		Greece	1.7
III	Citrus Fruit	France	-
		Italy	2.9
		Spain	3.2
		Portugal	12.3
		Greece	1.8

9. "The Second Enlargement of the European Community" European Documentation Periodical, (Luxembourg July 1979) Supplement 5/79, p.16.

	Item	Country	Percentage of final agricultural production
IV.	Other fruit	France	3.4
		Italy	4
		Spain	8.5
		Portugal	
		Greece	4.5
V.	Wine	France	8.3
		Italy	8.2
		Spain	4.9
		Portugal	10.5
		Greece	6.1
VI.	Olive Oil	France	-
		Italy	6.6
		Spain	4.3
		Portugal	5.6
		Greece	8.3
VII.	Others	France	10
		Italy	12.6
		Spain	13.4
		Portugal	14.8
		Greece	26.6
VIII.	Animal Prodcts	France	56.5
		Ftaly	40
		Spain	41.2
		Portugal	34.9
		Greece	31.5

Thus as is evident from the table 2.1 the Mediterranean products of thethree provide direct competition to France and Italy. In view of the competition France and Italy have submitted proposals for the reform of agricultural policy applying to Mediterranean products. A better market organization for such products, mainly fruits and vegetables, is seen as a means of redressing the present imbalance in favour of Northern European agricultural produce, cereals, meat and dairy products. Both countries are in favour of improving the measures for market price support and for protection against imports from third countries. However the commission has already come up with some proposals on Mediterranean agriculture with main emphasis on structural measures.

Further while integrating the three into CAP two important considerations may be taken into account. On one hand because of high EC price levels, farmers in three countries would be encouraged to produce more of the Mediterranean products. On the other hand however aligning prices upwards could bring about changes in consumer pattern in the applicant countries. In fact Last few years saw shift in eating habits in Spain and Portugal which led to deficits in their trade balances. The enlargement will lead to surpluses in Mediterranean products because the three together with France and Italy produce similar products. The emergence of surpluses will lead to decline in prices of these products which will be detrimental to the interest of the producer countries though the consumer countries would gain. Further as a result of integration of the three there may be upward revision in their wages to bring them at par with the community level. As a result of this there may be changes in standard of living and hence shift in consumer pattern. The CAP must take into account these considerations.

Hence in the agricultural sphere the EC must take into account the implications that enlargement will have on Mediterranean products. It should undertake necessary changes in CAP to deal with this question. In fact the commission has emphasized in its Fresco that

> "it is important that this potential (for growth) beused in applicant countries for developing lines of production other than those normally associated with Mediterranean countries and especially products with high protein content"[10]

In the industrial field the enlargement presents much more problem to the three than to the existing members. The Membership will lead to trade with EFTA and lower tariffs vis-a-vis the Third countries like Lome' countries and other developing countries. It may be pointed that it was because of industry that Greece, Spain and Portugal witnessed sustained

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10. Ibid p.15

growth in the 1960s and early 1970's. In Spain and Portugal industry accounted in 1975 for 40.7% and 45.2% of GDP respectively while Community average was 44.4%. In Greece it was one third of GDP. However their industrial development was due to high degree of tariff and non-tariff protection and state subsidies, aimed at preserving the domestic market for local firms. Therefore lowering and eventual removal of tariff because of their integration into EC will subject these industries to competition.[11] Further trade liberalization would lead to extinction of a large number of small and inefficient firms. Moreover the structure of industrial trade between the Three and EEC shows vertical division of labour with the latter specializing in production, of labour intensive goods. This specialization requires low wages which is not possible once integeration takes place because keeping low wages would lead to flight of labour to high wage countries.[12]

However for the Nine, enlargement offers new markets for their exports. Spain provides an important market for consumer goods and consumer durables and on the other hand the EEC will in turn provide an important market for the applicant's primary and manufactured products.

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11. Ibid p.17.

12. See Loukas Tsoukals "Economic Divergence and enlargement" in Michael Hodges and William Wallace, ed. <u>Economic Divergence in the European Community</u> (The Royal Institute of International Affairs 1981 by George Allen and Unwin London, Boston Sydney), p.160.

However there are problems likely to crop up in case of declining sectors of industry in the EEC because of enlargement. The 'sensitive' sectors of industry which are already in difficulty in the present community include, steel, ship building and repairing, textiles and garment manufacture and footwear. In their case enlargement will pose problem. The enlargement will create problem in case of steel which is in difficulty in the present Community. The steel production in the applicant countries particularly Spain is considerable. In 1980 Portugal produced 0.5 percent and Spain 9.8 per cent of the steel produced by community of ten in the same year.[13] Further in case ship building and ship repairing also problems will be posed by Spain (which has world's third largest ship building industry) and Greece which has begun to branch into ship building as well in addition to ship repairing. Further more in case of textiles, garment manufacture and footwear also problem will arise because they are important industries in the three from the point of view of output and employment and they are in difficulty in the Community of Nine. The three candidates are, classified by the EEC as 'low cost suppliers'. Moreover these sectors are important to the Third World Countries

13. _See Bulletin of the European Communities_, 8/82, n.2, p.17

for whom EEC is an important market for these products. Furthermore, opening of the EEC market to this type of product from applicant countries raises the issue of preferential access which the community had hitherto reserved for the developing countries.[14] The developing countries are equally important for EC because of its dependence on them for energy needs and raw materials.

It is likely that (in case of these sensitive industries) pressure will be exercised whereby the three will not be permitted to expand production in those spheres where community has already reached surplus capacity. Such pressures will increase if the EEC develops its own industrial policy in textiles and steel and also if aid is given to new members for investment in industry.[15]

> "At the time the community was formed there was little cause to worry about differences in industrial performance amongst member states with the exception of Italy. Italy was then the only member of second tier of countries that has now grown to include the U.K. and Ireland and may soon encompass Spain, Greece and Portugal."[16]

Thus enlargement will lead to greater divergence in industrial development.

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14. European Documentation 5/79, n.9, p.19.

15. Tsoukalis, n.7 p.159.

16. See Daniel T.Jones Industrial Development and Economic Divergence, Michael Hodges n. 12 pp.33-S.

As a result of enlargement there will be freedom of movement of workers within the community from low wage to hægh wage countries. Emigration helped the three to overcome the problem of unemployment. In 1973 the three supplied 22% of the immigrant labour force to the Nine member states. At present the unemployment problem is acute in the community and there are fewer opportunities for immigrant labour. Their integration will further increase the unemployment problem. Their entry is likely to increase the problem of surplus capacity and growing unemployment in sectors such as textiles, steel and shipbuilding. This would require that the three avoid investing heavily in 'sensivtive sectors' but then there will be problem of finance. Moreover the increasing trend towards capital intensive techniques in agriculture and industry will further aggravate the problem.

Further the entry of the three Southern European countries will considerably increase economic divergence within the community. The disparities in case of income has been shown in the tables below:

Table 2•2 EC countries: GDP per capita as a percentage of EC average (current prices and exchange rates)[17]

	1960	1970	1976	1977	1979
Belgium	106•4	108•2	125•2	130•2	123•6
Luxembourg	140•5	127•3	117•4	121•0	125•6
Denmark	111•1	127•8	141•7	139•6	140•0
France	113•5	112•7	122•3	117•4	115•9
Germany	112•7	125•6	135•2	138•4	134•8
Ireland	54•1	53•3	46•8	47•6	49•9
Italy	59•7	69•6	56•7	56•7	61•1
Netherlands	83•1	98•3	121•3	125•6	118•3
United Kingdom	117•1	88•5	73•1	72•6	76•6
Greece	36•2	45•8	44•9	45•9	43•8
Portugal	24•2	28•7	30•3	28•8	22•5
Spain	33•2	44•2	53•9	52•1	58•2

17• E•C•Hallet, "Economic Convergence and Divergence in the European Community: A Survey of Evidence", Michael Hodges, n•2; p•26•

The data in the table 2.2 above shows a steadily converging trend among Belgium, France, West Germany, the Netherlands Denmark and Luxembourg. These countries are in the upper income bracket while Ireland, Italy and U.K. are in the lower tier. The addition of the three will increase the number of countries in lower tier though they are quite behind the countries in the lower tier as is evident in the table.

Table 2.3 EC countries: GDP per capita as percentage of EC average (purchasing power parties)[18]

	1960	1970	1976	1977	1980 (estimate)
Belgium	99	102	109	109	108
Denmark	113	121	112	119	116
France	100	106	113	113	112
Germany	118	116	118	119	118
Ireland	59	61	61	62	61
Italy	69	76	73	72	77
Luxembourg	-	127	-	110	111
Netherlands	104	107	107	108	103
United Kingdom	112	97	93	92	91

18. Ibid, p.27

The Commission (on basis of purchasing power parity) has produced figures for GDP per capita as a percentage of the community average as is shown in the table 2.3 above. They show smaller degree of disparity as compared with figures based on market exchange ratios shown in the earlier table 2.2. However a two tier community with convergence within the upper tier still-emerges.

> "The accession of Greece, Spain and Portugal will tend to make it more difficult to achieve convergence of economic performance within the EC. All the three are relatively backward in economic terms in comparison with the existing member states and have a level of GDP per capita well below the Community average."[19] However since these countries except Portugal have had higher rate of growth has been due to effective state intervention and high tariff protection. But however the integeration into the community would lead to trade liberalization which would affect their enterprises particularly small and ineffecient ones. According to the MC Dougall - report the ratio between the richest and the poorest region in the community of nine was 4.4: 1 in 1970 and this disparity is expected to increase with the Southern enlargement."[20]

Enlargement will considerably add to community's regional problem. The backward regions in the three as well as in the Nine may be adversely affected. Farmers in

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19. Ibid pp. 28-29

20. See, Tsoukals, n.12 p.153.

French Midi and the Mezzogiorno in Italy with low per capita income as compared to other farmers in the Nine will suffer as a result of competition from the three. In North-West provinces of Spain where production is characterised by lower productivity relative to that in other parts of the country farmers may suffer.[21]

> "Regional disparities have been increasing over the past few years and the addition of three will further accentuate the problem. The fairly rapid growth experience by the three upto 1974 led to shift from agriculture to industry and services. The community is already having to contend this type of problem and enlargement is going to lead to far greater regional imbalances. Some indication of this can be obtained from per capita output. So far the widest gap between per capita output of the richest region of the community (Hamburg) and poorest (the West of Ireland and Calabria) has been in the ratio of 6:1 and 5 to 1 respectively. By the same yardstick the ratio between Hamburg and the poorest region of the enlarged 12 member community (Vil R eal Braganca will be 12 to 1."[22]

In order to deal with the regional disparities that may be accentuated due to enlargement it has been pointed out that there should be big transfer of resources to the Mediterranean region. In case of Portugal pre-accession aid has been provided for modernization. The Community budget

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21. Ibid pp.161-162

22. See European Documentation 5/79, n.9, p.10

should be increased to take care of this problem. The Commission estimates projected on the 1978 budget for a Community of 12 suggest that net transfer through budget amount to about 2.3 percent of GDP for Greece, 3.3 for Portugal and 4% for Spain. In addition they would receive loans from European Investment Bank, the ORTOLI facility as well as Balance of Payment aid within the framework of EMS.[23] Thus enlargement will put strain on Community resources.

Moreover it is feared that the process of European integeration may be slowed down and Community's internal power structure weakened due to Southern enlargements.

> "The institution and organs of the present community' wrote the commission in its General consideration,' "cannot ensure that the process of integeration will continue in an enlarged Community. On the contrary there is reason to fear that the Community decision making procedures will deteriorate... The institutions and organs of the enlarged community must accordingly be decisively strengthened."[24]

The EEC nominated three 'wise men' in December 1978 to deal with the question of making necessary institutional changes in view of enlargement.

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23. See Tsoukalis, n.12 p.159

24. See European Documentation 5/79, n.9 p.9

The unanimous decision making will become even more difficult with the enlargement of the EEC. The relative harmony that existed in the EEC of six declined in the EEC of Nine. The Nine did not act in unison in the oil crisis in 1973 and they also have differences on issues like contribution to the EEC budget. The commission has already indicated in the 'General considerations' the means by which decision making could be made more flexible. It has suggested that the (a) Council should make greater use of the scope available to it under Article 155 of the EEC Treaty i.e. (develving executive powers on the Commission); (b) a more systematic use of the vote by qualified majority as provided for in the Treaties and (c) extension of majority voting in certain cases where Treaties at present require unanimity (for example in areas covered by Article 100).[25]

In the Monetary sphere the EEC members have adopted different approaches. The membership of EEC does not lead to automatic accession to European Monetary System

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25. Bulletin of the European Communities, n.3, p.8

(EMS)[26] as is evident from the Accession Treaty concluded with Greece. The Greek Government is faced with a choice similar to the U.K. which though a member of EEC still reserves the right not to participate in the common monetary intervention system.[27] The other two candidates may also face similar choice and if they choose the British pathan then it will have adverse affect on EEC's attempts to have an integerated monetary system consisting of all members. The members also have differences in the budgetary sphere relating to contributions to the EEC budget. The addition of new members will increase the budgetary burden. According to the budget drawn for the twelve for the year 1981, accession of Spain and Portugal would have involved an increase in budget between 15 per cent and 20 per cent.[28]

In the sphere of energy also enlargement will further aggravate the situation. The energy requirements of member states are shown in the table below:

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26. EMS created in 1979 to stablize exchange rate relationships between the currencies and thereby promote stability and economic recovery.

27. _European File,_ (Brussels 17-18/80 November 1980); p.13.

28. Bulletin of the European Communities 8/82, n.3 p.19

Table 2.4 Energy production, Consumption and trade by regions and countries 1960, 1970, 1980.[29]

Regions and country		Year	Net exports of total energy as percentage of total energy production	Net imports of total energy as percentage of total energy consumption
		Year	In percentage	In percentage
	EEC	1980	-	56.7
1.	Belgium		-	97.7
2.	Denmark		-	100.8
3.	France		-	90.8
4.	Germany, Feb.,Rep.		-	59.1
5.	Greece		-	83.2
6.	Ireland		-	78.2
7.	Italy		-	90.4
8.	Luxembourg		-	99.4
9.	Netherlands		8.1	- (1970-54.4%)
10.	United Kingdom		-	43
	Portugal	1980	-	103.4
	Spain	1980	-	83.6

29. UNCTAD, Handbook of International Trade And Development Statistics (New York, 1983), extracts of Table 6.9 pp.494-7.

From Table 2.4 it is evident that the EEC is heavily dependent on imported energy and the addition of Spain and Portugal further increase its vulnerability to imported energy. The EEC has mooted several steps to reduce dependence on imported energy. However a number of EC states which are rich in oil and gas like the U.K., Ireland, Denmark and the Netherlands are against any strong control of energy policy from Brussels,[30] However even in this sphere there are differences among member states of the EEC with oil and gas rich states taking a different stand from the rest.

However an important argument put in favour of Southern enlargement is that it could strengthen democratic institutions in these states, and hence preclude the possibility of dictatorship returning in these states. Initially this enlargement was viewed by France and Italy as a means of redressing the geographical imbalance in the EEC (accentuated since 1973 enlargement) in favour of Northern states. Thus in a community of twelve there would be five members championing the Mediterranean cause. However France and Italy (maybe Greece also) now do not view this favourably because of fear of competition in agriculture particularly from Spain. In other words the real problem of enlargement will be economic and social rather than institutional because the Southern enlargement will considerably increase disparity in the levels of development within the community hereby triggering a kind of "North-South" debate within the European Community itself.

30. Ellen Frey Wouters The European Community and the Third World, (New York, 1980), p.81

Chapter III

Greece, Spain and Portugal: Their Economic Relations with the Third World

Greece, Spain and Portugal are less developed as compared to the EEC but in the context of World situation they come under the category of developed countries.[1] The three have more than half their trade with the developed countries and they currently import relatively little from the developing countries. In case of Greece its major suppliers are the EEC, Japan, the OPEC countries and the USA. The organization of Petroleum exporting countries (OPEC) account for over 20 per cent of Spain's total imports while Latin American countries account for about 7 to 8 per cent. In the field of trade impact of Southern enlargement will be mainly on the exports of developing countries to EEC.[2]

However of the three Southern European countries, Spain has more enduring links with the developing countries, while Portugal's links considerably declined after its overseas

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1. See UNCTAD, Handbook of International trade and Development Statistics (New York, 1983) (p.iii).

2. Eberhard Rhein "The Implications for developing countries of the Second enlargement of the EEC" in K.B.Lall, Wolfgang Ernst, H.S.Chopra ed. The EEC In The Global System, (New Delhi, 1984); p.57.

territories became independent. The integeration into the EEC will result in intensifying their links with the Third World. The following table gives an account of the trade relations of the three with different regions of the world:

Table 3.1 Direction of Trade Percentage of Country's Total Exports to imports from selected countries[3]

	Greece				Portugal				Spain			
	Exports		Imports		Exports		Import		Exports		Imports	
	1973	1979	1973	1979	1973	1971	1973	1979	1973	1979	1973	1979
Industrial countries	70.6	59.4	76.3	67.3	78.6	81.8	76.3	71.1	70.2	62.3	70.4	56.7
EEC(9)	54.9	49.1	50.1	44.3	48.6	56.9	45.4	41.6	47.8	48.0	42.9	35.9
Oil Exporting countries	3.3	14.7	6.7	11.7	0.6	1.6	3.2	15.0	6.2	10.9	11.8	24.9
Non Oil developing countries	16.3	17.3	12.5	15.2	19.7	13.9	19.0	10.5	20.5	22.0	15.3	15.5

As is evident from table 3.1 the industrial countries share in the impor ts and exports of the three is very large as compared to the share of the developing countries. However

3. Louka T.Katseli "Macro economic adjustment and exchange rate policy in Middle income countries: Greece, Portugal and Spain in 1970s" in Marcello de Cecco, ed. International Economic Adjustment Small countries and European Monetary System, (Oxford 1983); extracts Table 13, p.201.

the share of industrial countries has declined between 1973 and 1979 for both Greece as well as Spain. In case of Portugal the share of industrial countries in exports increased in the corresponding period. Among the industrial countries the share of EEC was very significant for the three. In the period between 1973 to 1979 the share of oil exporting countries increased in the trade of all the three countries both in exports as well as imports. The share of non-oil developing countries went up both in Greek as well as Spanish trade. However the share of non oil developing countries declined in the Portuguese trade between 1973 to 1979.

The three South European countries (except Spain) had little links with the Third World. It was partly due to their relative under development (as compared to EEC and other industrial countries) and partly because of their pursuing protectionist policies at Lome. For the three the share of agriculture a is still high as compared to the community average. The share of agriculture in total GDP was 15 per cent for Greece in 1980 and 12.9 per cent for Portugal and 9 per cent for Spain in 1978. The economically active population engage in agriculture for Greece was 36.5 per cent, for Spain 16.5 per cent and Portugal 25.5%[4]

4. UNCTAD <u>Handbook of International Trade and Development Statistics</u>, n. 1, Table 6.10 p.526 Also UNCTAD, <u>Handbook of International Trade and Development Statistics</u> (New York 1982), extracts Table 6.10 p.406

Further the GDP per capita of the three was much less as compared to community average of 10411 U.S. dollars in 1980. In case of Greece it was $ 4302, Portugal $ 2493 and Spain $ 5625 in 1980. The GDP per capita in Ireland was $ 5390.[5] In a community of Ten, Greece has the lowest per capita income. The per capita income of Spain is higher than even Ireland while Portugal is far behind.

Greece prior to its accession had very limited connections with developing countries. However Spain had considerable connections in Latin America. This is shown below:

Table 3.2 Spain's Foreign Trade with Selected Areas:[6] 1957-58 and 1970-71 (per centage) Imports (c.i.f.)

Area	Percent of total 1957-58	Percent of total:1970-71	Percentage charge: 1957-58 to 1970-71
USA	23.8	17.1	303.6
EEC	21.4	32.8	756.1
EFTA	16.3	14.4	393.2
Latin America	11.1	8.9	345.3
Others	27.4	26.8	446.6
Total:	100.00	100.00	458.8

5. Ibid, UNCTAD 1983, p.433

6. Eric N.Baklanoff, The Economic Transformation of Spain and Portugal, (New York, 1978), Table 5.11, p.71

Exports (f.o.b)

Area	Percentage of total 1957-58	Percent of total 1970-71	Percentage change 1957-58 to 1970-71
USA	9.5	14.8	726.8
EEC	27.8	36.7	600.0
EFTA	26.7	16.9	235.6
Latin America	11.2	11.0	420.0
Others	24.8	20.6	339.5
Total	100	100	429.8

From Table 3.2 it is evident that EEC emerged as an important trading partner for Spain. The share of Latin America in Spanish imports witnessed a decline whereas its share in Spanish exports remained more or less unchanged. The table shows that Latin America was an important partner of Spain in its trade relations.

Table 3.3: Spain Geographical distribution of Foreign trade by area 1973-76.[7]

Area	Imports (Percent) 1973	1976	Exports (percent) 1973	1976
EEC	42.9	33.1	40.9	46.4
USA	16.1	14.2	13.9	10.2
Latin America	7.0	7.9	8.7	9.7
OPEC	11.8	26.2	6.3	9.7

7. Ibid, extracts Table 6.7, p.88

The Table 3.3 shows that between 1973-76 the EEC's share in Spanish imports declined considerably. The OPEC countries share in Spanish imports increased considerably in the same period. The share of Latin America also went up both in Spanish imports as well as exports. In Spanish exports however the EEC share increased. The same is true for OPEC.

Portugal's links with the Third World were confined mainly to overseas territories. The granting of independence to Angola, Mozambique and lesser overseas territories by the regime of MFA brought about considerable economic changes which had tremednous effect on Portuguese economy. Portuguese exports to the former overseas territories which averaged 15 per cent of total exports in 1972-73 fell to 5 per cent in 1976. The imports from territories which averaged nearly 11 per cent of total imports in 1972-73 declined to 2.6 per cent in 1976. In 1973 before decolonisation Portugal bought 36 per cent of agricultural imports, 31 per cent of mineral imports (including oil) and 33 per cent of its textile raw materials from overseas territories. In 1976 it came down to 8.6 per cent in agriculture, 0.2% in mineral imports 19 per cent in textiles respectively. Portugal in turn lost an important external market for its textiles, canned fish, chemicals, rubber products, iron and steel and capital goods.[8]

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8. Ibid p.150

The following data explains the patterns of expenditures associated with Portugals holding on to overseas provinces.

Billions of escudos[9]

Expenditures		Receipts	
Extra ordinary defence expenditures	17.8	Investment income	1.2
Official investments	2.1	Private transfers	1.5
Official Outlays	4.1	Foreign travel	1.0

On the basis of the above statistics it has been argued that if the amount which Portugal spent on holding on ~~the~~ to the overseas territories had been spent on Portugal, it would have made much more progress than it has made at present.

The economic relations of the three with the third world are very limited. Greece prior to its joining the EEC as a full member in 1981 had very limited relations with the developing countries. According to the classifications as given in the U.N. year book, Greece was one of the major import partners of Cyprus among the developing countries. In 1979 Cyprus obtained 7.53 per cent of its imports from Greece as compared to 3.3 per cent in 1965. The share of cyprus in Greek exports was 1.95 per cent. Greece was one of the major export partners of Egypt and Tunisia in 1977. However Greece no longer remained a major export partner of Egypt in 1979. In 1977 Egypt exported 6.16 percent of its exports to Greece. On the other Tunisia sent 15.53 percent of her exports to Grece in 1979.[10] Now regarding oil Saudi Arabia was an important Supplier of oil to Greece. Its imports of oil from Saudi Arabia rose from 1.3 per cent in 1969 to 5.4 per cent in 1978.

Portugal also had limited Third World connections being mainly confined to its overseas territories. It was one of the major import partners of Angola and Mozambique. In 1979 Angola imported 21.97 percent of her imports from Portugal. In the same year Mozambique obtained 9.57 per cent of her imports from Portugal. On the other hand Portugal was one of the major export partners of Angola, Mozambique Burundi and Reunion. The share of Portugal in Angola's exports was 26.91 per cent and in that of Mozambique's exports was 16.14 per cent in 1979. In 1979 Portugal was no longer a major export partner of Burundi and Reunion for whom it was a major export partner in 1976.[11] In 1978 it obtained 5 per cent of its oil supplies from Iraq.

Spain was one of the major export partners of Cuba and

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10. UN _Yearbook of International Trade Statistics_, Vol. 1, (New York, 1981), Special Table N extracts pp.1208, 1217, 1222; and also U.N. _Year book of International Trade and Statistics_, (New York 1980), special Table K extracts, pp.1162, 1171, 1174.

11. Ibid pp.1206-16.

Morocco. The share of Spain in Cuba's and Morocco's imports was 2.77 per cent and 9.38 pecent respectively in 1979. In 1979 Spain was one of the major export partners of Bermuda (Spanish share in its exports was 8.69 per cent in 1979); Congo (Spanish share in its was exports 10.34 per cent in 1979); Cuba (Spanish share in its exports was 2.25 per cent in 1979); Domincan Republic (Spanish share in its exports was 5.33 per cent in 1979); Mauritania (Spanish share in its exports was 13.24 per cent in 1979); Libyan Arab Jamahiriya (Spanish share in its exports was 5.26 per cent in 1979); Morocco (Spanish share in its exports was 6.29 per cent in 1979) and Uganda (Spanish share in its exports 8.95 per cent in 1979).[12] Moreover uptil 1976 it was also a major export partner of Brazil, Iraq, Central American Empire and Papua New Guinea. Among oil producing countries Spain has links with Saudi Arabia, Iraq and Libyan A.J.Libyenne. The oil imports from these countries was 3.5 per cent, 0.5 per cent and 2.8 per cent respectively in 1969 and it went up to 8.71 per cent, 4.9 per cent and 3.6 per cent respectively in 1978.

The three South European Countries conducted more than half their trade with the developed market economices. The following table shows the share of developed

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12. Ibid pp 1207-22

and developing market economies in the trade of the three countries:

Table 3.4 Consignment: (Value as percentage of World Total)[13]

Region	Greece				Spain				Portugal			
	Special imports (C.I.F)		Special exports (F.O.B)		Special imports (C.I.F)		Special exports (F.O.B)		Special imports (C.I.F)		Special Exports (F.O.B.)	
	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980
Developed market economies	83.8	66.1	75.8	59.9	72.8	52.5	74.6	65.8	73.6	69.3	68.6	81.5
Developing market economies	10.9	27.6	7.5	28.1	25.7	44.9	22.0	30.2	25.3	28.1	29.8	14.5
African Developing market	3.1	14.4	2.9	10.4	7.9	10.1	7.1	10.9	15.5	4.8	25.7	7.8
American developing market	3.6	2.50	0.3	0.4	9.7	10.5	13.2	10.5	2.0	5.0	2.3	2.6
LAFTA	3.5	2.5	0.2	0.2	8.4	9.3	10.2	8.7	1.8	4.4	1.9	2.2
Asian developing market	4.3	10.7	4.3	17.4	8.1	9.3	1.8	8.8	7.7	18.2	1.8	4.1
Middle East	3m7	9.4	4.1	16.4	6.4	21.9	1.2	7.4	6.3	16.4	1.0	1.9

Ibid pp.402, 880; 781 and pp: 404, 877, 783.

From Table 3.4 it is evident that even in 1980 the share of developed market economies in their trade was very high as compared to developing countries. In the case of Greece and Spain the share of developed economies declined between 1970 to 1980 for both exports as well as imports. In case of Portugal share of developed countries remained more or less unchanged in case of imports while it increased considerably in case of exports in the period, 1970 to 1980.

However regarding the share of developing countries in the trade with the three, there was increase in its share in 1980 as compared to 1970 both in imports and exports except Portugal. In case of Portugal the share of developing countries declined considerably in the above period. This could be possibly due to the loss of its overseas territories which became independent during this period. However among the developing countries the share of Middle east countries showed an upward trend in its trade relations with the three. The trend was significant in case of imports (in this case oil of the three from the middle East during the period 1970 to 1980. The increasing demand for oil and oil price hike since the oil crisis in 1973 was responsible for the emergence of this trend. The American developing market (in particular LAFTA) was an important trade partner of Spain. Between 1970 to 1980 there was a decline in its share in the Spanish exports, while it share in Spanish imports increased.

The three Southern European countries thus have very limited relationship with the Third World with the exception of Spain. However as a result of their integeration into the EEC their relations with the Third World will be intensified.

Chapter IV

SOUTHERN EXPANSION OF THE EEC : ITS POSSIBLE EFFECTS ON ITS RELATIONS WITH THE THIRD WORLD

The integeration of Spain and Portugal in addition to Greece (already a member since 1 January 1981) will enhance EEC's status as world's largest trading power and will provide it with a strong presence on the Mediterranean sea board which has strategic as well as economic advantages. The Southern enlargement will considerably influence EEC's relations with the Third World. On the one hand it will provide the developing countries with a larger market and on the other it will adversely affect the exports of the developing countries to the EEC. The community dependence on the Third Worldis considerable. It imports more than half its energy requirements from the Third World. It depends on the Third World for about 90 per cent of its raw materials including coffee, cotton, copper and managanese. Moreover the Third World is a good market for its capital goods[1] The community will therefore have take into account the interests of the Third World while dealing with Southern enlargement.

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1. "The Community and Developing Countries," European File, (Brussels February, 1983), p.2

However Eberhard Rhein[2] has argued that the Second enlargement (refers to accession of Greece, Spain and Portugal) will not have the same impact as the first and that it will not have any significant effects on the exports of the developing countries at least in the short-run. His argument is based on the fact that since the second enlargement is not taking place simultaneously for all the three and is thus spread over a number of years its impact will be reduced. Further the three countries already export about 50 per cent of their goods to the EEC (as a result of preferential treaties concluded with them). Their goods are thus already competing with those of the developing countries in the EEC markets even prior to their accession to the EEC (Greece has already joined in 1981) and hence the effects of actual enlargement are likely to be reduced.

The EEC third world relations are governed by mutual interests and benefits. The community has direct interest in helping the Third World on whom it depends heavily for its energy and raw materials requirements. In fact the EC commissions proposals regarding the community development policy for 1980's indicate the Community's desire to assist the Third World. The commissions proposals include : (a) "establishing and consolidating between Europe and its partners

2. Eberhard Rhein, "The Implications for Developing Countries of the Second Enlargement of the EEC" in K.B.Lall, Wolfgang Ernst, H.S.Chopra eds. <u>The EEC in the Global System</u> (New Delhi, 1984), pp.50-51.

durable relations based on solidarity and mutual interest; (b) introducing via the North-South dialogue "a new system of international economic relations based on principles of equality and mutual benefit, as also to promote the common interest of all countries', and (c) contributing towards the strengthening of economic relations between developing countries (South-South Cooperation)."[3]

However inspite of the EEC's intentions to assist the Third World nothing tangible has been achieved in the various discussions that have taken place between the developed and the developing countries. "The failure of the North South dialogue, the non-event at cancun, the stalled global negotiations and the International Development Association (IDA) crisis are symptomatic of this."[4]

The EEC on its part should take concrete steps for the development of the Third World. The protectionist measures that the EEC has resorted with respect to the developing countries, are not conducive to developing healthy relationship between EEC and the Third World. Along with aid trade should also be directed towards the development of the Third World. Since the Third World has essential resources which the EEC needs they can also unite and bargain effectively as OPEC has done in recent years.[5] However the EEC has

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3. "Memorandum on Community's development policy", Bulletin of the European Communities (Luxembourg 1982) Supplement 5/82, p.5.

4. Ibid p.11

5. B.Vivekanandan, "Problems of European Community", in K.B.Lall, n.2, pp.221-2

cleverly created wedge between different developing countries by giving some of them particularly the ACP countries more preferential access to the EEC markets. The countries covered by EEC's Lome' convention and Mediterranean policy are in a more favourable position than the 'non associated countries' of Asia and Latin America including those that have concluded CCAs with the Community. Thus as a result of the various agreements the EEC has been able to create vested interests within the Third World. Moreover its ' 'Stabex' and 'Sysmin' schemes though ostensibly meant for the development of ACP" countries, are equally beneficial if not more to the EEC since they assure the community of a regular and unhindered supply of raw materials and minerals.

The Southern enlargement of the community will make the situation even more unfavourable to the Third World countries since it will adversely affect their (LDC's) interests in different spheres including agriculture, manufacturing, aid etc. However all the developing countries will not be affected to the same extent by the Southward expansion of the EEC. The effects of enlargement on Less developed countries (LDC's) in different sectors have been examined below.

The enlargement will considerably affect the Third world's exports of primary products to the EEC. The three countries namely Greece, Spain and Portugal produce the same Mediterranean products as France and Italy. Thus as a result of the Southern enlargement EEC's self sufficiency ratios will go up. This is shown in the table below:

Table 4.1 Self-sufficiency ratios for selected agricultural products[6]

	EEC-9 percent	EEC-12 percent
Fruit, Fresh and canned	78	85
Citrus Fruit	44	77
Oranges	47	86
Vegetables, fresh & canned	92	100
Potatoes	98	100
Tomatoes	93	99
Wine	108	112
Olive Oil	85	100

As is evident from Table 4.1 the enlargement will lead to surplus emerging in wine and sufficiency and near self-sufficiency in vegetables, potatoes olive oil, fruits and tomatoes. It will considerably increase EEC's self-sufficiency

6. Eberhard Rhein "The Implications for Developing Countries of the Second Enlargement of the EEC," in K.B. Lall, n.2, p.53.

in citrus fruit and oranges.

The Southern Mediterranean Countries[7] producing similar Mediterranean products will be considerably affected as a result of the enlargement. Their exports of a number of products like citrus fruit from Morocco and Israel, wine from Tunisia and Algeria, tomatoes from Morocco, Olive oil from Tunisia are likely to come under pressure as a result of the Southern enlargement. The ACP countries will not be affected much because they do no specialize in Mediterranean products. They account for less than 1 per cent of EEC imports of citrus fruit. The countries in Asia and Latin America will also remain unaffected. The enlargement will not affect Asian and ACP countries exports of unmanufactured tobacco since their variety is different from that of the Greek and Turkish Variety. The enlargement will considerably affect the Mediterranean products of the developing countries. The tropical products of and developing countries (such ACP and Asian countries) will remain largely unaffected because of enlargement. The Intra-EEC trade increased from about 31 per cent of EEC's agricultural imports in 1962 to 55 per cent in 1975. This was partly at the expense of the U.S. whose share during this period declined from 11.6 percent to

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7. Southern ~~Mak~~ Mediterranean countries comprise of the Maghreb (Morocco, Algeria and Tunisia) and Mashreq (Egypt, Jordan, Syria and Lebanon) countries and Israel.

8. Eberhard Rhein, n.6, p.54

about 10 per cent but it was mainly at the expense of the developing countries whose share fell from 32 percent in 1962 to only 19 per cent in 1975. With the Southern enlargement the Intra-EEC trade in agriculture may increase further thereby adversely affecting the LDC's. The operation of CAP has also adversely affected agricultural imports from LDC's. First of all by raising the price of agricultural products it has diminished demand for them. Secondly the operation of CAP has encouraged domestic production thereby leading to reduction in imports.[9] The imports of agriculture and food products from the developing countries accounted for 0.90 per cent of community GNP in 1980 compared with 0.45 per cent for US and 0.47 per cent for Japan.[10]

In the industrial sector also enlargement will pose problems to the LDC's. The freedom of movement within the EEC for workers from the three (Greece, Spain and Portugal) is likely to have an adverse affect on workers wishing to emigrate to Europe particularly from Maghreb countries. In 1976, 710,000 nationals of Maghreb countries were working in the EEC.[11] The curbs on their emigration would lead to

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9. Manmohan Agarwal, "Prospects for Exports of Indian Agricultural Produce to the EEC in the eighties," Paper presented at <u>JNU-EEC Joint Seminar</u> held at New Delhi from 17-19 November 1980).

10. <u>Bulletin of the European Communities</u> 5/82 n.3 p.13

11. "The Second Enlargement of the European Community", <u>European</u> Documentation periodical (Luxembourg July 1979) ~~Supplement 5779~~, p.23

reduction in their remittances which would adversely affect the development in the Meghreb countries.

In the case of manufactured goods the enlargement will have adverse effect on Third World exports of manufactured goods (particularly textile and clothing) to the EEC. The imports of manufactured products from the developing countries accounted for 1.35 per cent of community Gross National Product (GNP) in 1980 compared with 1.13 per cent for the U.S. and 0.58 per cent for Japan. Even in case of textiles the Community market is twice as open as that of U.S. or Japan.[12]

The Community has classified Greece, Spain and Portugal as 'low cost suppliers' in case of textiles and clothing. Further the textile exports to the industrialized countries have become subject to restrictive measures under the multifibre agreement (MFA). Moreover textiles and clothing occupay occupy an important place in the exports of the three candidate countries and also they account for a relatively large percentage of EEC imports from all low cost countries. This is shown in the table below:

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12. Bulletin, of the European Communities, 5/83 n.3, p.13.

Table 4.2 EEC imports of textile and clothing* from 'low cost' countries, 1976 to 1979 (1,000 tonnes).

	1976	1977	1978	1979	Average annual change(1979:76 percent.
All 'low cost' countries**	1,098.8	1,011.4	1,072.2	1,224.9	4.0
Developing countries	595.7	581.7	578.2	667.5	4.0
ACP countries	15.5	16.6	16.1	10.6	848
Countries covered by bilateral agree-ments, of which					
India	76.9	70.9	53.9	74.5	0.9
Brazil	48.4	50.9	47.6	58.0	6.6
Mediterranean countries***	40.8	42.8	44.0	63.5	55.6
of which Southern Mediterranean****	40.8	42.8	44.0	63.5	55.6
Greece	82.9	79.0	92.2	100.8	7.2
Spain	47.1	49.1	60.6	58.0	7.7
Portugal	54.8	47.7	65.6	81.0	15.9
Subtotal for "three"	184.8	175.8	218.4	239.8	9.9

13. Eberhard Rhein, n.6 p.62.

* Products covered by MFA.

** This category in-cludes the state trading countries & such industrialized countries as Greece, Spain & Portugal.

*** This is a group which included major suppliers such as Turkey & Yugoslavia as well as smaller ones (Malta, Cyprus).

**** Tunisia, Morocco, Egypt.

As is evident from Table 4.2 the Mediterranean countries export substantial quantities of textiles and clothing to the EEC. The community's imports from these countries represents 37 per cent of its imports from all 'low cost' suppliers in 1979. Over half of these imports were from the three candidate countries who together accounted for about 20 per cent of the exports of the 'low cost countries as a group. In 1976 the three candidate countries accounted for 28 per cent of imports from all MFA countries and in 1979 this went upto 35%.[14] The enlargement may lead to increased pressure on the EEC to restrain imports of textiles and clothing from outside sources. This will be determinatal to the LDC's and more so to those that have concluded bilateral agreement under MFA particularly the Asian and Latin American countries such as India, Brazil etc. The Asian and Latin American countries will be affected more than the ACP countries or the South Mediterranean countries because latter under the EEC's preferential agreements have been provided unrestricted access to the community markets in case of manufactured goods. However even in case of the Mediterranean countries and the three South European countries namely Greece, Spain and Portugal the Community has negotiated selfrestraint agreements to regulate their imports. In case of Greece however, this restriction has ended on 31 December 1980.

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14. Ibid pp.55-57.

Now, the three countries specialize in production of labour intensive goods. This specialization would require low wages which will be difficult to maintain after their integeration into the EEC because it will result in flight of labour to high wage countries. However further specialization sectors such as textiles would imply protectionist tendencies towards the Third World countries which is not in the interest of EEC because of its heavy dependence on LDC's for its raw material requirements.[15]

However as a result of enlargement Greece, Spain and Portugal will have to face twin competition, from developed EEC members on one hand and from the developing countries on the other hand. Now as a result of their integeration into the EEC, the candidates will have to revise their wage structure first of all because less wages as compared to EC members would mean flight of labour to other member countries and secondly because membership would necessitate certain minimum wages. The flight of labour would lead to decline of surplus labour which had depressing influence on wages. However on the other hand increased wage structure would lead to increased cost of production of labour intensive goods. This will lead to their goods becoming more expensive as compared to

15. Loukas Tsoukalis, "Economic Divergence and Enlargement" in Michael Hodges and William Wallace ed. Economic Divergence in the European Community" (London, 1981), p.160.

exports of other developing countries into the EEC. Moreover lowering of high protection rates against developing countries (as a result of integeration) would lead to stiff competition even in the home market. The EEC membership will necessitate the opening of their markets to third world countries. Since LDC's production costs are lower because of cheap labour it will provide them stiff competition.

Now in order to tap the EEC markets the three would have to preserve a wage level substantially below that of western Europe and similar to that of Third World. Alternatively they could press for higher EEC import tariff and decreased import quotas so as to curtail exports of LDC's. This would in turn also protect their domestic market from Third World competition. However both these alternatives are not compatible with objectives of the EEC. The first one would result in keeping on intolerable gap in incomes and standard of living inside western Europe. The second would mean lowering the chances of development of LDC's by exports. But the LDC's are an important source of energy and raw materials to the EEC and a good market for the exports of its capital goods and hence their interests cannot be ignored.[16]

16. Christian Deubner: "The Southern Enlargement of the European Community" opportunities and dilemmas from a West German point of view in Loukas Tsoukalis ed. *Journal of Common Market Studies*, (Vol.XVIII No.3) (Oxford March 1980), p.233.

Further the three will compete with the other LDC's for development aid funds of the Community. The GDP per capita of the three is far below the Community average.[17] In view of their relative backwardness they will require funds for their economic development. Moreover enlargement will require more funds for the implementation of Community policies. The development assistance that the three may receive may affect the development aid available to the LDC's. In the case of Community aid also the axe is likely to fall more on the Asian and the Latin American countries rather than on the ACP countries or the Southern Mediterranean countries because the ACP countries are the community's most important raw material suppliers. The Spanish entry may help to a certain extent in protecting the interests of Latin American countries.

Now as far as the oil producing countries are concerned enlargement will further intensify relations with them because the three are also heavily dependent on imported oil. In 1979 oil accounted for 53 per cent of the energy requirements of the EEC, of which 85 per cent was imported mainly from OPEC. countries. The oil consumption increased by 3 percent in 1979

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17. In 1980 G.D.P. per capita in U.S. dollars of EEC of ten was; Spain $ 5625; Greece $ 4302; Portugal $ 2493; Ireland. $ 5390.
See UNCTAD Handbook of International Trade & Development Statistics, (New York, 1982), p.433.

over the previous year.[17] This dependence is likely to increase with the Southern expansion.

However on the positive side the Southern enlargement would lead to the availability of bigger market to the Third World. The enlargement will also have an immediate effect on prospects for exports to the new members states since they have to adopt the community GSP Scheme from the date of accession. In other words the new members must accept the acquis communtaire. However,

> "in the long run trade creating effects of enlargement should overtake its trade diversion effects."[18]

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18. Hans Michaelis, "EEC and the Energy Crisis: New Methods and Management" in n.2, p.102

19. Eberhard Rhein, n.6, pp.52-3

Chapter V

CONCLUSIONS

The Southern enlargement of the EEC will further increase its share in world trade thus enhancing its status as an economic power. Moreover it will result in the EEC's having strongest presence on the Mediterranean sea board which may have both strategic as well as economic implications.

Further the Southern enlargement may necessitate modifications in EEC's 'CAP'. The prospective members Spain and Portugal produce similar Mediterranean products (such as olive oil, wine etc.) as France and Italy do and Greece a new member does also likewise. Their integeration into the Community will adversely affect the agricultural sectors of the existing EEC members because of their cheap labour and hence lower cost of production. This is one of the possible reason for stalling the chances of early entry in the case of Spain and to a lesser extent Portugal. In order to ward off this unhealthy competition the EEC may have to take steps to diversify production in the Mediterranean region. Such a step would help in curtailing surplus and avoiding unproductive competition. The CAP should be restructured keeping in view this aspect.

In the Industrial and energy spheres the enlargement will add to Community's problem. In certain sensitive sectors of industry such as iron and steel, ship building and repairing in textile and clothing and footwear, enlargement will have adverse effect because they are the declining sectors of the present EEC. Moreover in case of textile and clothing, the EEC's imports from the Third World will be affected. To avoid such an eventuality steps may be taken to regulate production of new entrants (EEC has concluded self restraint agreements with them) and to discourage them from making further investments in these sectors. Perhaps diversification of industrial production may help. In the energy sphere the enlargement will further increase Community's import dependence, particularly on oil. Here the appropriate solution would be to accelerate the process of exploring new sources of energy thereby reducing dependence on imported oil.

It is also understood that the Southern enlargement will add to the heterogeneity of the EEC and make decision-making more complex. The homogeneity ~~of the EEC and make decisions~~ that existed between the original Six members declined with the first enlargement in 1973. The Nine could not act in unison on a number of issues including the energy crisis of 1973 and its aftermath as well as on the monetary issues. In the Community of twelve achieving unanimity will become even more difficult. In such a case it is advisable for the EEC to adopt majority voting particularly in situations where past experience has shown that hold-ups are likely to recur. Moreover the enlargement will necessitate institutional changes. With a view to responding to this indispensable need the EEC has already appointed a committee of 'three wise men' to advise in this regard.

Moreover the Southern enlargement will further increase the regional disparities within the community. The relative backwardness of the applicant countries vis-a-vis the EEC may lead to reorientation of community's aid programme. The aid that the candidate countries will get for their economic development may result in reduction, as a result of diversion of funds, meant for LDC's.

With the exception of Spain, Greece (already a member of the EEC) and Portugal have limited contacts with the Third World. The EEC membership will bring them into far greater contact with the LDC's. The economy of these countries (particularly Spain and Portugal) in the past has progressed as a result of heavy tariffs. The membership will require dismantling of tariffs and opening up (in accord with the Community's net-work of international agreement) of their markets to various groupings in the Third World. Thus the Three will have to face twin competition from EEC countries on the one hand and Third World countries having agreements with the EEC on the other. This may adversely affect their inefficient and small firms which had progressed hithertofore because of heavy protection.

Furthermore it is also found that the Southern expansion will affect adversely LDC's exports to EEC markets particularly in relation to primary products. Among the Third World countries the most adversely affected in case of agricultural products will be the South Mediterranean countries producing similar products as those of the present applicants. The tropical products of ACP countries, Asian and Latin American countries will be largely unaffected. In case of the textiles and clothing the increased restrictions on their imports in view of enlargement will affect the Asian and Latin American countries more than the ACP and South Mediterranean countries which have unrestricted access to Community markets for manufactured products. However the EEC has concluded self restraint agreements with the applicant countries as well as the Southern Mediterranean countries to regulate imports of textiles and clothing. The EEC while dealing with Southern enlargement should take into account the interests of the Third World as well.

The Southern enlargement may prove to be a boon to the EEC in the sense that it would further intensify its links with Latin America (because of Spanish links) as on Britain's entry its relations grew manifold with the Commonwealth countries. In other words while the EEC will have larger markets for its capital goods in the Third World, the latter may also benefit because of access to the enlarged Community market.

Without doubt as our analysis has shown the Southern enlargement of the EEC bears considerable implications both for intra-Community relations as well as for the Third World. It will surely add to the EEC's weight as an economic bloc. With regard to implications for intra Community relations it may necessitate changes in the 'CAP' as well as the institutional structure of the EEC. It is but natural that when the institutional framework expands there are bound to be new unforeseeable problems of wide variety in political, economic and social milieu. These will require new skills to grapple with. As things stand in the industrial field the EEC may have to take steps to tackle the problems which may arise (in view of the southern enlargement) in its sensitive sectors (such as steel, textiles and garment manufacture and ship building), energy exploration as well as the resultant monetary problems. The enlargement will increase regional divergences within the Community thereby creating a type of 'North-South' problem within the Community itself. With regards to implications for the Third World the enlargement may lead to reorientation of the Community's aid policies in favour of the candidate countries and this may lead to reduction of funds meant for LDC's. In the field of trade the impact of enlargement will be mainly on exports of the developing countries to the EEC. Moreover the enlargement will provide the LDC's with a bigger market for their exports. The LDC's may gain from southern enlargement since in the long the trade creating effects of enlargement may overweigh its trade diversion effects.

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