Chapter Three

The Impact of Single Market on Major Sectors and Regions
The Single Market, formally launched on 1 January 1993, is one of the boldest economic projects envisaged anywhere in the world in the recent past. In the remarkably short time of seven years, the European Community has almost removed the internal frontiers which fragmented it into twelve separate national markets. With the accession of Sweden, Austria and Finland in 1995 into the EU, a single home market of 370 million consumers is turning out to be a reality. The virtual completion of the Single Market is not the end of the story; it is only a beginning. Now that it is in place, it must be ensured that it works correctly and smoothly for the benefit of all private citizens, companies, and the EC’s different regions. The flattening of internal frontiers has created a vast new home market for European firms, bringing more competition, and lower prices for consumers. The large domestic market and its economies would make European companies in turn more competitive on world export markets.

The successful transformation of the EC into EU is a key element in the Community’s strategy to boost economic growth, increase competitiveness and create jobs. Its very existence enhances the chances of success of efforts undertaken by the Community and the member states.¹ A smooth functioning Single Market would accelerate the pace of European economic recovery from the present economic recession. It would also restore confidence in the Community’s ability to achieve the goals set down in the Maastricht Treaty for Economic and Monetary Union, or finally political union.

Areas of EU responsibility would include industrial policy, health, education, culture and consumer protection. There would be greater resource transfer from rich

to poor regions via the Community's Structural Funds. The achievement of economic
and social cohesion within the Single Market is of vital importance if the goals of
European Union are to be realized.

Already, the Community is implementing a multi-billion ecu project to develop
trans-European networks (TENs) in communications and energy distribution. These
networks would help redraw the map of Community infrastructures as a coherent
integrated system rather than a juxtaposition of fifteen national systems. Active
participation in the Single Market and the achievement of tangible benefits for firms
and individuals would increase their confidence in the Community's future.

The immediate task before the Community and its governments is therefore to
consolidate the Single Market to ensure its smooth operation. This means dynamic
policies so as to:

i) fill existing gaps in areas like taxation and Company Law,
ii) introduce legislation in new policy areas, and
iii) ensure that national governments apply Single Market rules correctly.2

The Single Market has reinforced the Community's economic strength.
European companies now have access to a huge home market, greater in size than
those of their US and Japanese competitors.3 This in turn would enable them to
compete more effectively with their rivals on world markets.

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2 Ibid., p.7.

3 Commission of the European Communities, The Single Market in Action
The Challenge Ahead

The Single Market is operating in economic circumstances which are different from those envisaged by its architects only a few years ago. The economic recession in the region and the currency turbulence of 1992/93 made it more difficult to realize some of its benefits. The Single Market cannot by itself act as an economic motor to boost growth and create jobs. But it can act as a catalyst in the strategy for economic recovery being prepared by the Community and its member governments. A smooth functioning single market would respond rapidly and efficiently to the measures taken at EC and national level to stimulate growth. Effective and constructive cooperation between the Community and member states to ensure that rules are fairly applied is vital. Given the depth of commitment it has involved at all levels, the European Commission and the member states must make sure that the Single Market runs according to plan and that individuals and companies alike are able to draw the benefits to which they are entitled.

Although there is some flexibility as to the legal and legislative instruments used at national level, the transposed version must correspond in its impact to the aims of the directive. In addition, once transposed into national law, the directive must be interpreted and applied by governments in a manner which respects these aims. Differences in the way the rules are applied in practice can lead once more to a fragmentation of national markets.\(^4\)

The risk of divergent application or even the non-application of some EC directives is a real one, as is the possibility that governments may introduce national rules that cut across their Single Market commitments. Managing the Single Market

\(^4\) Commission of the European Communities, n.1, p.17.
would require a new kind of involvement and cooperation on the part of all concerned. Along with the Community institutions, particularly the European Commission and the member states, other actors such as businesses and individual citizens have a role to play in the new unified market. The essential tasks are threefold:

i) Communication: Clarifying the rules and telling consumers and enterprises clearly what their rights are, and what to do if problems are encountered.

ii) Partnership: Accepting the need for active cooperation between national and community institutions on a greater scale than previously practised.

iii) Legal Clarification: Removing doubts about EC law and enabling plaintiffs to seek redress at national and/or community level. 5

For the effective functioning of the market, the rules would be applied evenly throughout the Community and they would obtain redress, through the courts if necessary, when they are not.

These different elements of monitoring and control were brought together in a comprehensive strategic programme which the Commission submitted to the Council of Ministers and the European Parliament in 1993. The Parliament has been particularly watchful over the way the Commission, as guardian of EC legislation, has been trying to ensure that member states meet their Single Market obligations.

5 Ibid., p.18.
Maintaining the Momentum

Now that it is in place, the Single Market has a dynamism of its own. New needs would continue to arise in areas such as the protection of health, safety, the environment and consumers which would require either existing rules to be adapted or new rules to be introduced.

At the same time, the Community is trying to develop, as part of the management of the Single Market, mechanisms in the area of information, cooperation and assistance to companies. Big companies have the resources to adjust to the Single Market and many of them did not wait until January 1993 to do so. But the complexity of the liberalization process and of some of the accompanying legislation makes it difficult for other firms to reorganize themselves so as to benefit rapidly from the new frontier-free environment. To provide information and assistance to small and medium enterprises, Information centres (Euro-Info Centres) have been set up. In addition, the Community would have to continue the unfinished tasks contained in the original white paper on the Single Market. These include:

i) rules on the protection of intellectual property (patents and copyrights) and the protection of personal data;

ii) the further development of company law (the statute for a European Company and worker participation);

iii) the simplification of cross-border payment facilities;

iv) the creation of a favourable tax environment for companies (revision of VAT procedures and reduction of direct taxation wherever possible, especially on cross-border operations). 6

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6 Ibid., p.19.
The Single Market is like other aspects of EC policy; if it stops advancing, it regresses. But Community governments need to develop their awareness of the need to work within the framework of the international market and to avoid national regulations that run counter to this aim.

**Sectoral Responses**

The impact of the Single Market would be felt diversely by diverse sectors of the economy. The Commission has made its own initial assessment of this impact. More detailed studies have also been made of this impact on different sectors, covering a range of traditional and new manufacturing industries and service sectors: food, drink and tobacco; textiles and clothing; motor manufacturing; high technology industries; financial services and tourism.

The Cecchini study used a four-stage process to assess sector by sector the potential for cost savings from completion of the Single Market, which could then be turned into estimates of welfare gains under specific assumptions:7

**Stage 1:** cost of barriers affecting trade directly. Essentially these arise from border controls and delays.

**Stage 2:** cost of barriers affecting production. These operate whether or not a good is traded and cover such items as technical standards, regulation and public procurement.

**Stage 3:** economies of scale. Restructuring and increased production arising from lower prices and market integration give rise to further cost savings through economies of scale.

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Stage 4: competitive pressure on costs and profits. Increased competition leads to improved efficiency through the removal of so-called x-inefficiencies and the excess profits (rents) associated with monopoly.

Stages 1 and 2, the barrier effects, are essentially one-time gains realizable in the short term. Stages 3 and 4, the market integration effects, are medium-term effects depending on the restructuring of the economy within the Single Market. Table 3.1 summarizes the findings for a set of factors and for the European economy as a whole. These are preliminary estimates, and depend upon critical assumptions about the size of barrier effects and the responsiveness to the changes. In particular there is considerable doubt about the stage 4 effects, how changes in competition interrelate with the search for scale of economies. The Commission's estimates depended on detailed studies on certain sectors, which were seen as of particular significance and generalized to others. Nevertheless, the estimate indicate sectors which have more potential gains than others and hence involve more potential restructuring.

The Commission followed up these initial estimates with more detailed investigations. The forty industrial sectors which were determined to be the most sensitive to the 1992 process were selected for further study at both the Community level and at the level of individual member states. These forty sectors account for about 50 per cent of industrial value added and a similar proportion of manufacturing employment in the Community. Further studies were made to determine variations

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8 Ibid., p.112.
from this common list of sectors among member states. The southern countries have an industrial structure somewhat different from the average for the Community.

The sensitive sectors were identified on four basic criteria:

1. The level of non-tariff barriers, including frontier formalities, technical standards, public procurement, differences in VAT and excise duties, all of which contribute to the degree of protection in the sectors.

2. The degree of price dispersion.

3. The coverage ratio (share of domestic demand in each country covered by intra-EC and extra-EC imports) which measures the degree of penetration of trade and the openness of the economies to outside influences.

4. Potential scale economies, where there are cost advantages from greater integration.9

On the basis of these criteria, four groups of sectors were identified differentiated for trade intensity and price dispersion (Table 3.2). Before we analyse the implications of Table 3.2, we need to take a look at a representative selection of four industrial sectors, plus two service sectors, to assess their potential for responding to the challenges posed by the Single Market.

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9 Ibid., p.113.
Table 3.1: ILLUSTRATIVE GAINS FROM SELECTED SECTORS (BILLION ECU)\(^1\)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Removal of barriers Stages I and II customs and technical barriers</th>
<th>Integration of Markets</th>
<th>Alternative estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stage III</td>
<td>Stage IV</td>
<td>Total</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.7-3.0</td>
<td>1.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Electricity, gas, water</td>
<td>3.3</td>
<td>0.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2.8-2.9</td>
<td>7.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Mechanical engineering</td>
<td>2.6-3.2</td>
<td>4.4-4.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Electrical goods</td>
<td>2.6-3.3</td>
<td>5.3-5.4</td>
<td>11.0</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>2.1-3.1</td>
<td>4.5-4.7</td>
<td>10.0</td>
</tr>
<tr>
<td>Food products (not meat, dairy)</td>
<td>1.2-2.7</td>
<td>3.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Beverages</td>
<td>0.4-0.5</td>
<td>0.9-1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Textiles, clothing</td>
<td>1.6-1.7</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Timber, furniture</td>
<td>0.7-0.9</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Building, civil engineering</td>
<td>4.3-4.9</td>
<td>2.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Wholesale, retail trade</td>
<td>3.5-3.8</td>
<td>1.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Inland transport</td>
<td>1.5</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Credit and insurance</td>
<td>10.5-10.6</td>
<td>1.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Total (all sectors)</td>
<td>64.8-79.8</td>
<td>60.3-61.5</td>
<td>45.6</td>
</tr>
</tbody>
</table>

1. A range of estimates is given to reflect different databases. Competition effects in agriculture and service sectors are assumed to be given in barrier removal effects as separate studies were not carried out in these sectors.

2. Alternative estimates have been made on the basis of Smith and Venables (1988) who undertook a more thorough study of the restructuring and competition effects under differing assumptions about market structure.

Food, Drink and Tobacco

Food, Drink and Tobacco (FDT), known as agrifood sector, represents processed agricultural products including canning and freezing. The sector accounts for about 10.5 per cent of employment and 10.7 per cent of value added as a proportion of manufacturing industry. Sensitive products within the sector fall in one of the two regulated market groups in Table 3.2 according to which they display a high degree of import penetration and hence low price dispersion or the reverse. The sector is a market characterized by low growth. The income elasticity of demand for most products is extremely low and the scope for export to third markets, given the relatively high cost of EC-produced food inputs, is also low. Hence European producers have had to look for increasing ways of developing new markets within the Community although this has been hindered by strong regional variations in patterns of demand.\(^\text{10}\) In order to protect the consumers the European Union has established common hygiene and labelling rules. Consequently, staple foodstuffs are subject to strict and mandatory surveillance.\(^\text{11}\)

Despite the recognition of segmented markets, where variations in tests have been reinforced by technical and health standards, there has been a strong move to greater international integration and concentration in the industry. Half of the companies were selling given product lines in only one or two of the main EC markets on an average and only 9 per cent were selling in all five of the main markets.

\(^\text{10}\) Ibid., p.114.

Table 3.2: CLASSIFICATION OF MOST SENSITIVE SECTORS

<table>
<thead>
<tr>
<th>Trade Intensity</th>
<th>Price dispersion</th>
<th>Strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Characteristics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High NTBs</td>
<td></td>
<td></td>
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<tr>
<td>Competition from NICs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructuring</td>
<td></td>
<td></td>
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<tr>
<td><strong>Examples</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shipbuilding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pasta and cocoa Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Share</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value added: 6.46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment: 7.32</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Characteristics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moderate NTBs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partly open to competition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open to extra EC trade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High concentration and scope for scale economies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low productivity of EC companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Examples</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecommunications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data processing</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Share</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value added: 7.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment: 6.06</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Traditional or regulated public procurement markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Characteristics</td>
</tr>
<tr>
<td>High NTBs</td>
</tr>
<tr>
<td>Weak competition in intra-and extra-EC trade</td>
</tr>
<tr>
<td>High concentration and scale economies</td>
</tr>
<tr>
<td>Major potential for 1992 restructuring</td>
</tr>
<tr>
<td><strong>Examples</strong></td>
</tr>
<tr>
<td>Boilermaking and railway equipment</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>Alcoholic and soft drinks</td>
</tr>
<tr>
<td><strong>Share</strong></td>
</tr>
<tr>
<td>Value added: 5.91</td>
</tr>
<tr>
<td>Employment: 4.36</td>
</tr>
<tr>
<td>Products with moderate non-tariff barriers</td>
</tr>
<tr>
<td><strong>Characteristics</strong></td>
</tr>
<tr>
<td>Moderate NTBs</td>
</tr>
<tr>
<td>Fragmented distribution or marketing</td>
</tr>
<tr>
<td>High degree of product differentiation</td>
</tr>
<tr>
<td><strong>Examples</strong></td>
</tr>
<tr>
<td>Motor vehicles</td>
</tr>
<tr>
<td>Textiles, clothing, footwear</td>
</tr>
<tr>
<td>Domestic electrical appliances, television, videos</td>
</tr>
<tr>
<td>Toys</td>
</tr>
<tr>
<td><strong>Share</strong></td>
</tr>
<tr>
<td>Value added: 42.06</td>
</tr>
<tr>
<td>Employment: 35.77</td>
</tr>
</tbody>
</table>

(France, Germany, Italy, Spain and the UK). Thus internalization has to be selective as adequate rates of return are available only to market leaders.¹²

For FDT producers, the increasing power and internationalization of retailers, often using their own brand names, pose an additional problem. That is why FDT has been an industry with considerably recent mergers and acquisition activity with about one-third of deals involving cross-border activity. Regulations and standards are the most significant barrier to the creation of a Single Market about which there is some hope of action. These barriers fall into five main areas:

1. Specific ingredient restrictions, where the product must conform to certain ingredient or content standard to be allowed to be sold.
2. Content/denomination regulations, where the product must conform to certain ingredient or content standards to be labelled a certain product.
3. Packaging/labelling regulations where packaging and/or labelling must conform to specific requirements (e.g. as to content).
5. Specific importing regulations.¹³

The gains to the Single Market from the removal of these barriers would accrue from the following:

a. The use of less expensive ingredients and savings from bulk purchases.
b. The reduction in packaging and labelling costs.
c. The cutting down of the bureaucracy overseeing the barriers.

¹³ Ibid., p.116.
There is also scope for further gains: as consumer choice increases, greater efficiency results from increased competition and trade increases. Firms may be better placed to exploit new products with access to more and larger markets. The critical factor is a balance between this search for economies of scale in product lines and an increasing market segmentation. Removal of trade barriers would attract non-EC firms. As it is, 55 per cent of US and 73 per cent of Swiss brands are found in all five major EC markets compared to an average 49 per cent for EC brands. Already fierce competition within the sector, especially where regulation has been less pronounced, has squeezed profit margins and hence the impact of economies of scale and increased competition on prices is more difficult to predict.

In the EU, agricultural products are produced in a heavily subsidized and distorted market under the Common Agricultural Policy. Under the Uruguay Round, the Community has to cut its farm subsidies by 20 per cent over a period of six years. This reduction of protection could have a twofold effect. Lower input prices could increase the profitability of agriculture-based EC industry and give it a competitive boost relative to extra-EC competitors. But the impact of lower levels of support to EC agricultural regions could be to increase reliance on imported agricultural produce, which would push food processing industries away from agricultural regions and towards major ports.

Alcoholic drink and tobacco, which have considerable importance for employment in the southern economies, are strongly implicated by fiscal changes in the single market programme. So we may conclude that food, drink and tobacco

14 S. Ramakrishna, "Indian Agriculture and the Uruguay Round Agreement--Need for a Pragmatic Approach" in K.R. Gupta, ed., WTO and India (New Delhi, 1996), p.223.
sector, though stagnant basically in terms of its growth potential, has already seen major restructuring. During 1994, the Commission continued its review of the detailed provisions of Community food legislation requested by the Edinburgh summit with a view to rationalizing and simplifying the Community rules applicable to coffee extracts, sugars, preserved milks, honey, fruit juices and nectars, chocolate and jams, jellies and marmalades.15 The Commission has decided to cease work on the elaboration of certain specific directives relating to foodstuffs for special nutritional purposes and has proposed to delete the references to low-sodium foodstuffs, gluten-free foodstuffs, foods for diabetics and high-energy foodstuffs for sports persons from the list of specific directives.

Textiles and Clothing

About 50 per cent of textile output goes into clothing and virtually all of clothing input comes from textiles, giving rise to strong vertical integration. Textiles and clothing is a classic case of a major European industry which has faced increasing problems. These sectors fall clearly into the large group in Table 3.2 of sectors with moderate trade barriers and moderate to strong price variations despite relatively high degrees of import penetration both within the EC and from outside. The internal frontiers that were needed to implement the Community quotas distributed among member states vis-a-vis third countries had the effect that for both Community trade

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and the consumer the market was far from fully integrated, which might also contribute to the important price differences for the clothing sector in particular.\textsuperscript{16}

Textiles were the basis of the industrial revolution in Europe, but so they have been for many newly industrializing countries. This has led to high-wage, low-productivity-growth producers in Europe facing increasing problems. The problems are compounded by the tendency for the industry to be highly spatially concentrated. The pressure for government aid has been strong. The desire to avoid distortions in internal competition resulting from excessive state aid led to concentration on strategy to restrict competition from outside producers. Thinly disguised as a form of voluntary export restraint, the Multi-fibre Arrangement (MFA) has been a means of protecting EC producers.

The Uruguay Round has been successful in arriving at a formula for integration of this sector into GATT (now WTO), which would be as follows:

First, as on 1 January 1995 each party would integrate into GATT products from the specific list in the Agreement which accounted for not less than 16 per cent of its total volume of imports in 1990. At the beginning of phase 2, on 1 January 1998, products which accounted for not less than 17 per cent of 1990 imports would be integrated. On 1 January 2002, products which accounted for not less than 18 per cent of 1990 imports would be integrated. All remaining products would be integrated at the end of the transition period, i.e., on 1 January 2005.\textsuperscript{17}


\textsuperscript{17} R. Jai Kumar, "Uruguay Round of Multilateral Trade negotiations--Agreement on clothing" in V. Ramachandriah, ed., \textit{GATT Accord- India's strategic response} (New Delhi, 1994), pp.257-8.
The textiles and clothing sector is a fairly integrated industry within the Union, the main pressures coming from outside. Since 1980 there has been a steady upward trend in imports especially of clothing and a deterioration in the EC trade balance to around 6 billion ECU by 1988. Trade barriers other than border controls are of minimal importance and arise mainly from the way quota systems operate within the MFA. The phasing out of MFA after the Uruguay Round would worsen the situation in the Single Market as the developing countries have a competitive advantage against the EC. Differing VAT rates also affect the clothing industry, such products being classified differently by different member states. The overall reduction in unit costs from the completion of the Single Market is, however, estimated to be only between 0.4 and 0.9 per cent. The EU has also amended the GSP scheme for the developing countries' exports: EU has devised a "graduation" mechanism, to channel preferences from the more developed to the less developed beneficiary countries. The mechanism is both country-and product-specific. Its criteria of application are related to the level of the development of the beneficiary country and its respective trade specialization. Countries with per capita GNP of over US $6000 in 1991 would receive only 50 per cent of GSP benefits w.e.f. 1 April 1995 and would be excluded from GSP altogether w.e.f. 1 January 1996. Countries with per capita GNP of less than US $6000 would have a 50 per cent reduction of benefits w.e.f. 1 January 1997 in sectors where they have achieved a high degree of specialization. The GSP benefits would be withdrawn altogether for these sectors w.e.f. 1 January 1998. The graduation mechanism also applies to countries whose

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18 R.W. Vickerman, n.7, p.120.

19 Ibid., p.121.
exports to EU of particular products exceed one-fourth of the total preferential EU imports of the product concerned from all the beneficiary countries. For the countries concerned and products thus identified, preferential access would end from 1 January 1996. A Community scheme of GSP, comprising general arrangements and special incentive arrangements, has been established for the period 1 January 1995 to 31 December 1998, to apply in accordance with the conditions and arrangement prescribed by this regulation. Developing countries may lose their competitive edge due to the withdrawal of GSP benefits. Therefore, the outcome of GATT negotiations to phase out MFA on the one hand and the withdrawal of GSP benefits by the EU on the other is expected to maintain the status of the industry.

The Automobile Industry

The automobile industry is a key sector where fragmented markets have prevented the achievement of potential economies of scale and the consequent failure to exploit world markets in the face of US and Japanese competition. It is also a sector where technical standards have not been harmonized and where differential tax treatment of vehicles has distorted markets. It is also the largest single sector of all the sensitive sectors in terms of both value added and employment. The industry produces nearly 9 per cent of the value added in manufacturing and employs just over 8 per cent of the manufacturing workforce. Germany leads with 13 per cent value-added, followed by France and Belgium with just under 9 per cent value-added. Though EC is a net exporter of cars, its trade surplus is declining since 1987, due to

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shortfall in production. Japan has benefited from this development, but the protectionist measures of the Union have restricted its entry into the Single Market.

Price differences for the same model of car in different member states are still substantial but are narrowing steadily. The figures released by the Commission in 1995 show that the proportion of models with a price differential of more than 20 per cent had declined from 22.5 per cent in May 1995 to 19.1 per cent in November.\textsuperscript{22}

In making the internal market for motor vehicles a reality the European Union has gone through several stages, but the process is not yet complete. One can buy the car of his choice anywhere in the EU, but he is obliged to pay VAT, to pass a roadworthiness test (in some cases) and to have his car registered in his country of residence. In a genuine internal market cars would be manufactured according to common technical standards, and there would be no roadworthiness problems when they are being registered.\textsuperscript{23}

Serious barriers to free competition still persist which impose extracosts on buyers. These include: (a) authorization for manufacturers to apply exclusive and selective distribution networks, (b) the practical difficulties of buying a car from a foreign based dealer, (c) the lack of competition for spare parts, and (d) the red tape involved in registering a car purchased abroad.\textsuperscript{24}

The completion of the internal market in this sector involves the gradual replacement of a body of national technical rules on construction requirements to ensure the safety of users and third parties and to protect the environment by a single


\textsuperscript{23} Commission of the European Communities, n.11, p.141.

\textsuperscript{24} Ibid., p.150.
body of harmonized rules for the whole Union.\textsuperscript{25} The real potential for gain lies in a restructuring of the industry to enable more efficient use of capital and greater production runs of component. This could imply some substantial reorganization of the industry.

**High Technology Sectors**

High technology industry forms the core sector in a modern, growing economy. Although the Community has put considerable emphasis on R&\textsuperscript{D} and on collaborative funding of new technologies through various programmes such as ESPRIT and COMMENT, the total resources devoted to this have been on a small scale. The ability to exploit this investment has been further impaired through various restrictive practices, public procurement aid to national champions and lack of harmonization in technical standards.\textsuperscript{26} Table 3.3 shows this sector to have a unique set of problems, such as high non-tariff barrier, particularly related to public procurement, but high trade penetration and relatively little price dispersion. The problems of the sector stem from fragmented markets, leading to higher costs and low productivity by world standards.

\textsuperscript{25} Commission of the European Communities, n.15, p.71.

\textsuperscript{26} R.W. Vickerman, n.7, p.130.
### Table 3.3. PRICE VARIATIONS IN PROVISION OF BANKING SERVICES (% VARIATION FROM AVERAGE OF FOUR LOWEST)

<table>
<thead>
<tr>
<th>Country</th>
<th>Commercial loans</th>
<th>Consumer Credit</th>
<th>Credit Cards</th>
<th>Mortgages</th>
<th>Letters of Credit</th>
<th>Foreign exchange drafts</th>
<th>Travellers Cheques</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>-4.6</td>
<td>-41.0</td>
<td>79.0</td>
<td>31.3</td>
<td>21.8</td>
<td>6.2</td>
<td>35.2</td>
</tr>
<tr>
<td>Germany</td>
<td>6.0</td>
<td>135.9</td>
<td>60.0</td>
<td>57.3</td>
<td>-10.0</td>
<td>30.9</td>
<td>-7.4</td>
</tr>
<tr>
<td>Spain</td>
<td>19.2</td>
<td>38.5</td>
<td>25.7</td>
<td>118.8</td>
<td>58.9</td>
<td>196.3</td>
<td>29.6</td>
</tr>
<tr>
<td>France</td>
<td>-7.3</td>
<td>105.1</td>
<td>-29.5</td>
<td>78.5</td>
<td>-7.2</td>
<td>55.6</td>
<td>38.9</td>
</tr>
<tr>
<td>Italy</td>
<td>8.6</td>
<td>121.0</td>
<td>88.6</td>
<td>-4.3</td>
<td>9.1</td>
<td>23.5</td>
<td>22.2</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>6.0</td>
<td>-26.9</td>
<td>-12.4</td>
<td>36.5</td>
<td>27.1</td>
<td>33.3</td>
<td>-7.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>43.0</td>
<td>30.8</td>
<td>42.9</td>
<td>-6.3</td>
<td>16.5</td>
<td>-45.7</td>
<td>33.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>45.7</td>
<td>121.5</td>
<td>16.2</td>
<td>-20.7</td>
<td>8.1</td>
<td>16.1</td>
<td>-7.4</td>
</tr>
</tbody>
</table>

**Source:** European Commission, 1988.
US and Japanese competition is a real threat and requires increased R&D expenditure which can only be financed by profits on existing ventures. The Commission suggests that member states should stimulate the industry's research efforts by offering tax incentives. Public procurement restrictions have also fragmented the market and inhibited both internal competition and the achievement of scale economies. Also, rising R&D costs have necessitated more joint venture activity and mergers and acquisitions. Thus recent years have seen the joint mega project of Siemens and Philips, the takeover of Ferranti by Plessey, the SGS/Thomson merger and the later takeover of Inmos (the privatized British venture) by ST. The high technology sector being a collection of much smaller industries, we may consider three such industries of the sector: active electronic components, computers and telecom equipment. Components production accounts for only 15-20 per cent of total electronics industry output. The EC has also been facing an increasing trade deficit in components; a surplus of 950 million ecu in 1981 had turned into a deficit of over 1.1 billion ecu by 1988 despite a strong growth in exports.\textsuperscript{27} Although in semiconductors the Union's share is decreasing, it is favourably placed against the US.

The computer industry has also faced difficult times in the face of market domination by firms such as IBM. Japanese companies are also penetrating into the market through acquisitions. Japanese interest clearly is to secure a base within the Community. Acquisition provides the base, helps to eliminate some subsidized competition and gives some potential to R&D funding of the Union. There is some feeling that large parts of the 1.75 billion ecu a year spent on research in the high

\textsuperscript{27} Ibid.
technology area have not been used for improving competitiveness, but rather to bolster companies against acquisition.  

The telecommunications equipment sector is frequently held up as an example of the worst effects of public procurement. Government-owned, national telecom agencies (PTTs) have monopsonistic and regulated control over purchasing of telecom equipment whose technical standards they determined and procured from designated national suppliers. As a result a unique system of barriers to trade in telecommunications equipment has been maintained, limiting intra-Community trade to only a fraction of extra-Community trade. Economies of scale are low compared with major competitors and traditional comparative advantage is falling rapidly. Among the main barriers to intra-Community trade are those of differing technical standards, especially for switching equipment; selective procurement policies, usually involving a limited number of domestic suppliers; strict control by certification of products, including those which customers are authorized to attach to the network; and input specificity whereby new equipment must conform technically to the standards of existing capital equipment and which acts as a barrier to entry and exit from the market. The EU is a net exporter of telecom equipment, although it runs a deficit with both the United States and Japan. The green paper issued by the Commission recommended immediate liberalization of satellite and mobile communications networks and those fixed-wire ground services that are already liberalized (such as

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28 Economist Intelligent Unit, n.22, p.19.
29 Directorate General for Economic and Financial Affairs, n.16, p.78.
30 Ibid.
data transmission and closed-user groups) and ending with public voice telephony by the already agreed deadline of January 1998.  

Liberalization, standardization and competition should lead both to greater economies of scale and improved competitiveness against extra-EU competitors. The total effect on costs is estimated at between 3 and 4.8 billion ecu. This programme has been supported by an EU initiative the RACE project, to establish an integrated broadband communication network. In the future, the EC industry may have to recognize that its real strength is at the research and design stage and in software development. The impact of 1992 so far has been to increase extra-EU competition and inward investment rather than a revival of the overprotected domestic industry. Though insufficient, the Uruguay Round left some impact on the telecommunications sector of the Community. The basic telecommunications negotiations are of crucial importance because they will provide an opportunity to exploit the Community's internal liberalization process which will be completed by 1 January 1998. The Community expects a substantial level of commitment from its major partners under the most-favoured nation clause.

Financial Services

Financial services represent the basis in services. It is an area in which world competition has intensified with the globalization of trade and increasing liberalization

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31 Economist Intelligent Unit. n.22, p.28.

of capital controls. Financial services consist of traditionally separated sub-sectors such as banking and credit, insurance, brokerage and security services.

Banking and credit institutions provide the basic financial services essential to the running of an efficient domestic economy and its trade relations. In the EU, the UK market alone has substantial foreign presence, with 60 per cent of the market being in foreign deposits. In this respect the UK leads over Japan and the US. In 1988 UK banks held 18.5 per cent of world foreign deposits compared with 13.4 per cent in Japan and 11.9 per cent in the United States.\(^{33}\)

Regulation, taxation, the competitive environment, exchange controls and state involvement have all led to substantial differences in the price of banking services. These differences are bound to be reflected in other firms' costs and competitiveness.\(^{34}\)

Economies of scale are likely to be limited in banking and there are problems of customer recognition and trust which may hamper new ventures. Nevertheless, the search for new markets and exploitation of under-banked areas of the Union are likely to be a strong motive for the big banks. Merger and acquisition activity has increased considerably in recent years but relatively little of this has been across borders. Free movement of capital is a corner stone of the Single Market, but at present the consumer pays a cost for purchasing foreign currency and for bank transfers between countries of the European Union. It is expected that the introduction of Euro as a single currency in everyday transactions probably in 2002 may solve the problem of fluctuating exchange rates.


\(^{34}\) Ibid., p.136.
The insurance sector is again dominated by the UK with 30 per cent of the insurance market share of the EU and 46 per cent of the life insurance market. Insurance in the private sector is influenced by the degree of state involvement in insurance provision through social security and the welfare state. France, Denmark, Ireland and Portugal have state-owned insurance companies. In principle, since July 1994, private individuals may take out insurance in any Community member state, offering them a wider choice. There would seem to be more scope for exploiting increased competitiveness in markets other than the UK after 1992 and UK insurance companies would be well placed to take advantage of this. An independent expert group reported to the Commission in January 1994 on the introduction of the ecu as a single currency that may help in expanding and strengthening the insurance sector.

Security markets in the EU countries reflect considerable differences in structure and the size of the capital markets. They are highly regulated to ensure a proper functioning of capital markets and adequate investor protection. Regulations cover the issue of securities, eligibility of institutions for participating in the markets, the structure and functioning of investment funds and the movement of capital.

An 18-month interim agreement, entering into force on 1 June 1996, which was adopted by the members of the WTO on 28 July 1995 forms a package of initial commitments to liberalize financial service. The agreement, sponsored by the Community, is a welcome contribution to the multilateral system. The Community, however, could improve the package of current commitment on the basis of the most-favoured-nation clause even before the interim agreement expires in December 1997.

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35 Commission of the European Communities, n.11, p.183.
Travel and Tourism

Travel and tourism is a sector that impinges on other sectors, principally transport, hotels and catering. Nevertheless the increasing integration of these elements at the marketing and production stage makes it helpful to think of it as a sector. Also, the emphasis placed on tourism as a growth sector in Europe and the increasing competition from outside Europe makes it an important sector for many regions which depend heavily on the tourist trade as the basis of their economies. Tourism revenue is estimated at 1.66 per cent of the EC GDP in 1988, the most significant deviations being Germany (0.88 per cent) and Spain (5.23 per cent).\(^{37}\)

Tourism and travel is a labour-intensive industry, employing considerable low-wage labour. Thus its contribution to total employment is more substantial than its contribution to GDP. The problem is basically of seasonality and the large amount of casual labour.

Today checks at the international borders are virtually a thing of the past: foreign currency checks and baggage checks have been installed for nationals of the European Union at most ports and airports.\(^{38}\) In the travel sector, consumer protection has long been unequal between states. Travel agencies also have tended to disclaim all liability in the event of problems and to pass the buck to various service providers. Fortunately, the European Union has forged ahead with legislation to provide protection to the consumer in the following domains:

- package holidays;
- overbooking of aeroplane seats;

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\(^{38}\) Commission of the European Communities, n.29, p.151.
The main effects of the 1992 programme on tourism would derive from transport deregulation, tax harmonization and liberalized capital flows. In general, deregulation of air, coach and bus operations is expected to reduce travel costs within the Union.

Summing up

Different sectors are likely to experience a differing mix of the main changes implied in the transition to the Single Market. The harmonization of standards is expected to dominate in some, and the search for scale economies in others. In some, the major changes will be internal to the EC's own markets; in others there will be a balance between what happens internally and the impact of changing world trading circumstances. In all the sectors, however, the process of change depends critically on the response of firms themselves; and this makes the outcome of the Single Market not quite certain.

Regional Impact of the Single market

The essence of the programme to complete the Single Market is to liberate regions from the straitjacket of their existing structure and to allow freer competition so that regions can benefit from their competitive advantages. A relatively equitable distribution of the gains and losses, or at least the perception of such an equitable distribution, can be a determining factor for the continuation of the integration

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39 Ibid.
process. Regional integration schemes in other parts of the world have often foundered because this problem was not effectively dealt with. The distributional impact of integration is always paramount in the minds of national politicians and representatives of various pressure groups; and it strongly influences negotiations within the common institutions from a very early stage. This was evident in the first package deals on which the Paris and Rome treaties were based. Yet those package deals made few provisions for explicitly redistributive instruments.

Redistribution is a central element of the European mixed economy at the national level; and this has become increasingly true of the EC as well. Redistribution is an index of the political and social cohesion of a new system: large transfers of funds across national frontiers not being a normal feature of international organizations. The objective of the EC extends, in fact, beyond a balanced distribution of gains and losses associated with integration.

**Regional Policy**

Regional problems refer to the persistence of large disparities among different regions of the same country in terms of income, productivity and levels of employment, to mention only some of the most representative economic indicators. But the European Community can be taken as one region in a loose form after the integration movement was started there though factors are not as mobile as inside one country. With the passage of time the EC has been able to dismantle its barriers in order to bring free movement to the factors of production.

The Community is characterized by large economic disparities among countries and regions. On the basis of Purchasing Power Standards (PPSs), per capita income levels in Greece and Portugal are less than half those enjoyed in Germany and Luxembourg (Table 3.4). Interregional disparities are much more pronounced. Thus
Table 3.4  DIVERGENCE OF REAL GDP, 1960-1989  
(PPS EC-12, EC-12, = 100)

<table>
<thead>
<tr>
<th></th>
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<td>110.6</td>
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<td>116.0</td>
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<td>110.0</td>
<td>113.7</td>
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<td>113.4</td>
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<td>55.7</td>
<td>54.2</td>
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<td>72.1</td>
<td>73.9</td>
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<td>110.3</td>
<td>109.0</td>
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<td>65.0</td>
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<td>94.7</td>
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<td>103.2</td>
<td>103.4</td>
<td>103.7</td>
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</tr>
<tr>
<td>Luxembourg</td>
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<td>120.9</td>
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<tr>
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<td>115.7</td>
<td>111.0</td>
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<td>106.2</td>
<td>103.9</td>
<td>102.6</td>
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</tr>
<tr>
<td>Portugal</td>
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<td>48.8</td>
<td>51.4</td>
<td>55.1</td>
<td>52.2</td>
<td>52.8</td>
<td>54.0</td>
<td>54.0</td>
<td>55.1</td>
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<tr>
<td>United Kingdom</td>
<td>127.6</td>
<td>108.5</td>
<td>105.7</td>
<td>101.0</td>
<td>104.1</td>
<td>105.0</td>
<td>106.9</td>
<td>107.4</td>
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</tr>
<tr>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Ratio of 4 poorest to 4 richest countries</td>
<td>41.6</td>
<td>57.4</td>
<td>63.5</td>
<td>59.9</td>
<td>58.5</td>
<td>58.6</td>
<td>60.3</td>
<td>61.1</td>
<td>62.0</td>
</tr>
</tbody>
</table>

Note: Per capita GDP is given at current market prices and current purchasing power parities

Source: Eurostat (Luxembourg).
the difference between Hamburg and Groningen on the one hand and the poorest regions of Greece and Portugal on the other is 4:1. One quarter of the population of the EC lives in areas where the average per capita income is less than two-thirds of the Community average.\(^{40}\) Income disparities have a strong centre-periphery dimension, the poorest regions of the EC being concentrated in the southern and western periphery.

With respect to regional policy, three main phases may be distinguished since the establishment of the EEC in 1958. The first phase, which lasted until 1975, was characterized by the lack of any common regional policy worth the name. The second was marked by the creation of new instruments, the strengthening of the regional policy dimension of others already available, and the steady increase in the amounts of money spent. The third phase is connected with the reform of the so-called structural funds in 1988. It constitutes a turning point in the search for greater effectiveness of common instruments, coupled with a substantial further increase in EC expenditure with a regional bias.\(^{41}\)

The original six members of the EC constituted a relatively homogeneous economic group, with the exception of the south of Italy; a problem which was, in fact, recognized in the protocol for the Mezzogiorno, attached to the Treaty of Rome. Article 2 of the treaty referred to the objective of a "harmonious development of economic activities, a continuous and balanced expansion", while in the preamble the contracting parties went even further by calling for a reduction of "the differences


\(^{41}\) Ibid.
existing between the various regions and the backwardness of the less favoured regions". 42

Regional disparities were not as yet generally recognized as a major policy concern when the treaty was signed. Although regional policy had its heyday in most western European countries during the 1960s and early 1970s, with large sums of money spent in this direction, very little happened at the EC level. The EIB and the European Agricultural Guidance and Guarantee Fund (EAGGF) played a modest redistributive role during this period. But the first serious attempt towards the coordination of national regional policies was made as late as 1971, with the aim of preventing an "overbidding" between regions, which would normally be at the expense of the poorer ones. Interest at the Community level grew as a result of the first enlargement of the EC and the rapid deterioration in the international economic environment, both coinciding in the early 1970s. The accession of three new members brought countries with serious regional problems inside the EC. On the other hand, clearly dissatisfied with the overall economic package which had taken shape prior to the UK's accession to the Community, the government in London searched for other mechanisms which would partly compensate for the budgetary loss arising from the operation of the CAP. The creation of the European Regional Development Fund (ERDF) soon became the spearhead of this effort. The ERDF was set up in 1975, and its birth signalled the growing concern with intra-EC disparities.

The funds available through the ERDF grew steadily over the years. Disbursements were in the form of matching grants for the financing of investment product, with almost exclusive emphasis on infrastructural investment. There was also

42 Ibid., p.207.
a clear redistributive bias in favour of countries with more severe regional problems and an increasing concentration of resources on the least developed regions. However, the total sums of money remained small, when compared with expenditures in terms of regional policy at the national level. In 1988, ERDF assistance amounted to only 0.09 per cent of EC GDP and 0.46 per cent of gross fixed capital formation (GFCF).

A new approach to regional policy was introduced in 1985 with the Integrated Mediterranean Programmes (IMPs), intended for the Mediterranean regions of France, Italy and the whole of Greece. This was in recognition of the special development problems of these regions and the irrelative bias of the CAP against southern agricultural products. The ground was gradually prepared for a major qualitative change in the use of policy instruments coupled with a major shift in the scale of EC intervention. The decision to establish the internal market and the dramatic improvement in the economic and political environment in western Europe provided the catalyst. This eventually led to the reform of structural funds in 1988. But the legal foundations had been laid earlier with the SEA. The latter introduced Title v to the Treaty of Rome under the heading "economic and social cohesion". It was a formal recognition of the greater political importance of the redistributive function, which also constituted an integral part of the overall package deal behind the SEA and the relaunching of European integration.

The doubling of resources went hand in hand with an effort to improve the effectiveness of EC action through the adoption of clearer objectives, an improved coordination of different financial instruments and a close monitoring of jointly financed programmes. Five priority objectives were assigned to the funds and the EIB was also expected to contribute to those objectives. The latter related to:
The Impact of Single Market on Major Sectors and Regions

1. the less developed regions;
2. areas of industrial decline;
3. the long-term unemployed;
4. employment of young people;
5a. adjustment of agricultural structures;
5b. development of rural areas.43

Though the overall sums of money are still small, the 1988 reforms would lead to a remarkable increase in real terms. The redistributive impact would be further strengthened through greater concentration of resources. This impact would be significant for the least developed countries and regions of the Community. By 1992, transfers through the structural funds represented 2.5-3.5 per cent of GDP for Greece, Ireland and Portugal. Since outlays through the structural funds were in the form of matching grants, ranging from 75 per cent of total expenditure, directed largely towards investment in infrastructure and training expenditure by 1992, a very substantial part of public investment in those countries were tied to EC-approved programmes (reaching as high as 40 per cent).

Impact of the Single Market

Increased growth in the EC deriving from the completion of the Single Market would be divided between the regions, but the reallocation of resources implicit in that boost to growth would affect regions differentially according to their competitiveness. Competitiveness would itself depend on three sets of influences: those specific to sectors independently of their location, those relevant to the nation within which the

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43 Ibid., p.217.
region is located and those specific to the individual region. Whether the balance is
towards concentration or dispersion will depend essentially on where the regions are
along a U-shaped curve of competitiveness which sees that in a world of imperfect
competition there is a relationship between the degree of concentration and trade
barriers. Up to a point, a reduction in trade barriers may increase concentration, but
there is a possibility of this ultimately reversing. 44

Hence, the performance of a region would depend initially on the extent to
which there were major changes implied for its principal sectors. Greater scope for
economies of scale could imply greater concentration of production, or greater
specialization of individual stages in the production process, depending on the nature
of the production function. The changing national macroeconomic context, through
greater monetary coordination, greater stability in interest or exchange rates or
harmonization of fiscal policies or rates of taxation, will affect different regions in the
Community differently for any given structure. Region-specific factors are essentially
those related to its factor endowment. This is wider than just availability and skill of
labour and capital and their prices. The public capital base of the region - its
infrastructure - will be an important determinant of competitiveness and this involves
both physical infrastructure such as transport and "soft" infrastructure such as
training, business information services etc. Physical infrastructure can be both inferred
to the region and involved in connecting it to other regions. 45 Also specific to
regions or groups of regions is the policy environment, whether this is coordinated at
community, national or local level.

The key question for most regions is the extent to which they are competitive in the sectors within which they are specialized and the prospects for growth in that sector. If we assume that there is to be substantial restructuring of industry in the search for greater competitiveness then, regardless of whether the industry is growing or declining, regions will be competing to maintain their existing production and employment. The faster the rate of growth of the sector, the easier this may be, especially since the costs of relocating production are not negligible. In some senses the scale of the change is so large that there is no reason to suppose that, for many industries, the present location is optimal in the context of the Single Market. To the extent that for many of the member countries factor endowments are very similar, most growing modern footloose industries could be essentially indifferent between locations. It is likely that factor endowments are more varied between the regions of these countries, but it seems likely that industries will have a wide range of potential locations to choose from.

In determining the potential for relocation, three main elements can be identified. These are the relevant size of the economies of scale in the sector and the stage of the production process at which these occur, the linkages to other industries and the degree of competition within the sector. Large-scale economies do not, in themselves, require a high degree of spatial concentration. In many sectors the real scope for economies of scale lies at the level of individual processes which can be linked together by efficient communications and transport systems. Often the existence of borders has prevented this taking place on a European scale and led to fragmentation in organization rather than just in production. Indeed, for many industries there may be positive benefits in decentralization of production because of
the increasing costs of congestion in some industrial regions, or other bottlenecks in
the supply of factors.46

Industrial linkages have been assessed as having an importance in determining
a region's success. Linkages can be either forward, towards the market-place, or
backward, towards an earlier stage of the production process. The traditional argument
for growth poles or industrial complexes was that linkages were important in
minimizing the leakages from a local economy from an exogenous increase in the
demand for the final product in such a system. They might also protect the region by
reducing the probability that any single element of the linked structure would leave
the region. However, at a time of great change this advantage is likely to be relatively
small compared to the possibility that the entire complex suffers. In the short run,
regions with well-developed linkages would be able to avoid suffering from these
problems, but in the long run it is not clear that highly linked industries are either
necessary or desirable for a region. The degree of competition in a sector will depend
both on the existing structure of the industry and on the extent to which it will come
under increasing pressures in the search for greater efficiency. Thus regions with a
strong dependence on industries currently protected by technical standards or
substantial public procurement may face much stronger new competitive pressures.
Regions that have a substantial sector of small and medium-sized enterprises may
correspondingly perform much better, since it is this type of firm that is likely to
benefit most from the removal of trade barriers.47

46 Ibid., p.149.
47 Ibid., p.150.
A study by the EC (Commission of the European Communities in 1990) has attempted to assess the impact of the changes envisaged for each of the valuable sectors on each member state; taking into account that member state's performance in that sector. Performance is based on a set of four indicators, intra- and extra-EC coverage ratio (i.e. the proportion of domestic demand in a sector covered by domestic production as measured by the ratio of exports to imports), export specialization (the share of the sector's exports in total exports relative to the average EC share of that sector) and product specialization (a similar measure of the share for that sector).

The study suggests several important differences between the member states at a national level. One group of countries, the United Kingdom, France, Belgium and Spain have a fairly balanced distribution between sectors with different global scores; the United Kingdom is interesting since it has a very small proportion in extreme categories, either positive or negative. The other countries have much less balanced distributions. Italy and Germany are very skewed towards the better performing sectors; Denmark, Ireland and the Netherlands are the opposite of the United Kingdom with sectors being either good or bad but little in the middle and Greece and Portugal show that most sectors are either very good or very bad, but there is also a strong presence of what may be termed indifferent sectors with zero score.

It has been found that the more successful sectors in some countries have maintained their competitive position in their own markets by the use of various barriers which the 1992 programme is designed to abolish. The adjustment that would follow after the EC-1992 project is seen as being part of the internalization of European industry through direct investment in other countries by firms based in any one member state or by the increasing use of joint ventures or full mergers between
companies based in different member states, towards the growth of genuinely European companies. The difference in corporate cultures between firms in different countries may play a major role in determining both the extent and direction of that adjustment. Hence British and French firms have been the most heavily involved in cross-border activity.