China's entry into the WTO signals the end of its strategy of selective trade liberalisation, which began in 1979. Since then, China's trade policy has been characterised by export promotion associated with the protection of its domestic market. Hence, China has maintained relatively high tariffs as well as quantitative restrictions on imports, while at the same time ensuring that such protectionism does not penalise its export industries by according them tariff exemptions. Similarly, China's policy with respect to foreign investments has been selective, channelling foreign investment into export industries and limiting access to local markets, except for sectors in which the output of foreign-owned companies is a substitute for imports. This dualist policy has been an undoubted success, as is borne out by the massive inflow of foreign investments and the rapid expansion of China's foreign trade during the 1990s; two phenomena which are closely linked.

Foreign Direct Investment (FDI) has had a major impact on China's manufacturing industry. The transfer of capital and technology has helped China's production structure evolve towards new sectors and has notably ensured the rise of electrical and electronic industries. Foreign-equity companies have also been responsible for most of the progress Chinese exports have made in world markets in the nineties. Indeed, FDI has generated industries in China which are strongly integrated into the international division of labour, based on the transformation of imported intermediate goods. This specialisation in the downstream stages of production that are strongly labour intensive has allowed China to diversify its exports and to acquire new comparative advantages outside its traditional industries. During the 1990s, the dynamism of these transformation and assembly industries was also accompanied by a marked progression of local content in exported output.

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However, this strategy has had more limited consequences for China's overall industrial structure. During the 1990s, Chinese companies' export performance lagged strongly behind that of foreign-equity companies and they do not seem to have benefited greatly from the opening up policy. China's industrial enterprises are directly handicapped by tariff and non-tariff barriers (this is not the case for foreign-equity companies, which benefit from tariff exemptions on most of their imports), whereas Chinese firms have lagged behind.

(1) Companies with a foreign equity shareholding of between 20% and 100%.
and in 1997 they accounted for only one third of imports in machinery and equipment, despite the fact they produced more than 80% of industrial output. Such unequal access to technology and foreign capital has slowed down the modernisation of Chinese enterprises, and puts them at a relative disadvantage compared to foreign-equity companies, in both domestic and foreign markets. China’s trade policy to date has created a situation in which imports for domestic producers and consumers are strongly taxed, while companies with foreign equity benefit from cheaper import costs and even in some cases from the protection of the domestic market they supply. WTO membership will lead to a fall in customs tariffs and the suppression of quantitative restrictions on imports. This will have the effect of reducing distortions, and raising the still-limited share of imports in the supply of local markets.

Trade liberalisation will bring about a reallocation of resources to labour-intensive sectors (such as textiles), at the expense of natural resource-intensive (cereals) and capital-intensive industries (machinery). At present, State-Owned Enterprises (SOEs) account for 26% of industrial output, collective enterprises for 36%, individual firms for 16%, foreign-equity companies for 14%, and other firms for 7% of output. The impact of liberalisation on these different categories will depend on their sectoral specialisation, as well as on their capacity to face up to competition. Chinese enterprises are in a strong position in the textile industry, and should benefit from China’s entry into the WTO; but they are also present in sectors that will be exposed to foreign competition (machinery and capital equipment). The same holds true for foreign-equity, automobile companies. SOEs will be very sensitive to trade liberalisation in as far as they are concentrated in capitalistic sectors.

Greater competition will likely push resources out of sectors intensive in natural resources and capital and into labour-intensive activities.

However, the capacity for resisting competition does not necessarily coincide with the various forms of property ownership: both the State and non-State sectors are very heterogeneous. In the State sector, a large number of loss-making enterprises coexist with a set of better-performing enterprises which are likely to play a key role in future growth. The policy of openness is a means of accelerating the selection process and disciplining enterprise behaviour. Such pressure can only be brought to bear if state enterprises are freed of their social responsibilities and rid of the bad debts which may follow from these. SOEs will thus have to be made subject to financial constraints and bankruptcy laws.

At the same time, the development of a strong, local private sector is imperative for job creation and the expansion of indigenous supply capacity in a competitive environment that is increasingly open to foreign companies. The private sector is being encouraged to extend the range of its activities and to raise capacity, but is still constrained by limited financial resources. Given insufficient interest rate flexibility to date, Chinese banks have restricted their lending to the private sector, mainly financing SOEs whose borrowing is implicitly guaranteed. The liberalisation of interest rates will condition the access of private and collective companies to bank credit.

### Table - The Openness of Chinese Industry in 1997

<table>
<thead>
<tr>
<th></th>
<th>in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export rate (exports/output)</td>
<td></td>
</tr>
<tr>
<td>All local enterprises</td>
<td>12.9</td>
</tr>
<tr>
<td>Foreign-equity companies</td>
<td>39.7</td>
</tr>
<tr>
<td>Chinese companies</td>
<td>8.6</td>
</tr>
<tr>
<td>Supply of the domestic market*</td>
<td>100</td>
</tr>
<tr>
<td>Local production</td>
<td></td>
</tr>
<tr>
<td>Chinese enterprises</td>
<td>85.5</td>
</tr>
<tr>
<td>Foreign-equity enterprises</td>
<td>8.9</td>
</tr>
<tr>
<td>Imports**</td>
<td></td>
</tr>
<tr>
<td>Chinese enterprises</td>
<td>3.2</td>
</tr>
<tr>
<td>Foreign-equity enterprises</td>
<td>2.4</td>
</tr>
</tbody>
</table>

* Domestic demand: production less exports plus imports destined for the domestic market.
** Excluding imports destined for the re-export.


For China, entry into the WTO meets three objectives: it reinforces the dynamism of economic reform, it supports growth thanks to the better allocation of resources, and it maintains the inflow of FDI which is necessary to the modernisation of the economy. Foreign investment should level off in manufacturing industry due to existing over-capacity, but the opening up of new sectors (distribution, financial services and telecommunications) should stimulate renewed progress of such investment.

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**FOr further information see:**

RESEARCH SUMMARY

Employment: the Lessons from the Netherlands

Thanks to very strong job growth, the Netherlands has witnessed its unemployment rate fall from nearly 10% in 1983 to less than 3% in 1999. This reduction stems mainly from the development of part-time work and sustained growth. But it also follows a slowdown in hourly labour productivity, since the mid-1980s, as well as moderate wage growth. The virtuous circle this seems to have triggered has been fuelled by the demographic factors and by the massive entry of women into the labour market.

In 1982, the Dutch rate of unemployment was one of the highest in the OECD (the harmonised rate stood at 9% at the end of the year), and had in fact risen by 2.8 percentage points during the year. Today, the rate is under 3%, and certain commentators do not shy from speaking of a miracle. The very high number of people considered as disabled (nearly 11% of the workforce in 1997) is often cited, incorrectly, as one of the reasons for the fall in unemployment: this figure was proportionately higher in 1982. On the contrary, the massive influx of women into the labour market has clearly raised activity rates since the beginning of the 1990s.

The very strong growth in jobs is thus the main explanation for the fall in unemployment: indeed the working population has grown by 30% since its low point in 1983, and by over 25% when compared with 1979 (the middle of the business cycle). Two underlying trends have contributed to this performance in the Netherlands. First, the working age population, which is the main determinant of long term employment, has risen strongly (up by 16% between 1979 and 1998). Second, part-time labour, which was only moderately developed in the early 1970s, has expanded rapidly to levels that are exceptional worldwide. Economic policies did not stimulate this development, which has been regular over the last quarter of a century; rather, they have accompanied it. In 1997, part-time workers represented 38% of employment, according to national definitions (17% of male employment and 68% of female employment). Thus, the cumulative growth in employment between 1979 and 1997 was 9.4 percentage points greater than the number of full-time equivalent jobs (FTE).

The dynamic nature of Dutch employment also stems from the rise in the FTE employment rate (the ratio of FTE employment to the working age population). This turnaround appears to be a catch-up in two ways. First, with respect to time: the falls experienced in the early 1980s were very steep and it was not until 1997 that the FTE employment rate returned to its 1979 level. Second, with respect to other European countries: even after a spectacular turnaround, the level of Dutch FTE employment in 1997 (54%) was still below the European average (55% in 1996).

This observation puts the Dutch performance into perspective, but the turnaround of the previous trend and the rise in the rate of FTE employment are nevertheless remarkable. It is thus worth examining its causes and in particular the role of Dutch economic policy, given that in 1982 a new government came to power and the Wassenaar accords on pay were signed.

Faster growth and wage moderation have been key factors in stimulating job growth.

An accounting breakdown of the rate of employment highlights the main factors for recovery (Table 1). The reduction in working time does not seem to have played a decisive role. The length of full-time work has fallen at a rate inferior to that experienced during the 1970s. In contrast, the acceleration of economic growth has been important, thanks to a favourable macroeconomic environment. But it is not the only factor in the recovery of employment rates.

The slowdown in hourly labour productivity, which occurred in the mid-1980s has also had an important impact. To gauge this evolution correctly, it is preferable to examine the market sector only, and to use specific evaluations (Table 2). Following the first oil-shock, hourly labour productivity fell markedly in all industrialised countries. But the Dutch market sector experienced a second slowdown, which occurred in the mid-1980s. This slowdown is remarkable both for its magnitude as well as the weakness of annual hourly productivity gains in recent years (1.5%). In addition, productivity gains have slowed just as growth has accelerated. This is not therefore a cyclical phenomenon, but a structural evolution. It affects both industry and services, and results from a concomitant fall in the rates of growth of capital intensity and that of

(1) This study was supported by the DARES (of the French Ministry of Employment and Solidarity).
(2) Signed in November 1982, the Wassenaar accords marked the lifting of the employers’ veto to the collective reduction of the working week, and the unions’ acceptance of the de-indexing of wages along with wage restraint.
(3) The figures used in Table 1 are calculated from national accounting data for hours worked, and differ from those presented in Table 2, which come from studies specifically aimed at measuring hourly labour productivity.
total factor productivity. The increased share of low productivity sectors in the economy has contributed nearly half a percentage point per year to this phenomenon.

Of all the explanations, wage restraint, within a context of strong labour demand, appears to have been the most relevant factor. Faced with the durable, slower growth in the real cost of labour, companies have had less incentive to substitute capital for labour and have been less constrained in improving total factor productivity.

Slower labour productivity growth has also helped the growth in jobs.

Wage restraint and the rise in employment are closely linked. To a large extent, the marked fall in the rate of employment and the strong trend rise in the supply of labour led the government and the social partners to reach a strategic agreement on wage moderation at the beginning of the 1980s. The Wassenaar accords clearly signalled the commitment by social partners to such a policy. These accords, which were consistent with the economic orientation of the new government, helped bring about a change in companies' expectations.

The influence of wages on productivity and employment was surely reinforced by the initial characteristics of the Dutch economy. The very high level already obtained by hourly productivity and by the stock of capital relative to hours worked made further rapid gains in these areas less indispensable (and more difficult), which was all the more the case given the presence of large reserves of labour.

However, the slowdown in productivity growth is a priori bad news over the medium term. While a slower rise in capital intensity reflects more employment-yielding growth, which benefits the fight against unemployment, the slowdown in total factor productivity is more problematic. In the Netherlands, it has not affected the rate of GDP growth, thanks to the positive impact induced by the growth of employment. For households, the additional income brought in by employed women has made it easier to accept the slow growth in the main household income. For the economy as a whole, the dynamism of employment has compensated for slow wage growth, stemming any fall in consumption. This virtuous circle has also facilitated the reduction of social security contributions on labour. The specificity of the Dutch case lies in the scale of these mechanisms, which follow from the country's demographic dynamism and the entry of women into the labour market. Economic activity has thus not slowed down. Its growth has merely become more "extensive" in terms of jobs.

The last two decades are a transition period for the Dutch economy: the exceptional position of a relatively small, productive and employed labour force has for a large part disappeared. This is largely due to the credible commitment to durable wage moderation. This policy turned out to be a success mostly because the context: a high, initial unemployment rate, together with a rapidly increasing labour force have allowed the acceleration of employment growth to more than offset the slowdown in productivity growth.

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FURTHER INFORMATION SEE:

- 'EMPLOI : LES ENSEIGNEMENTS DE L'EXPERIENCE NEDERLANDAISE'
  FORTHCOMING IN ECONOMIE ET STATISTIQUE,

- 'SYNDROME, MIRACLE, MODELE POLDER ET AUTRES
  SPECIFICITES NEDERLANDAISES : QUELS ENSEIGNEMENTS POUR
  L'EMPLOI EN FRANCE ?'
  DOCUMENTS ETUDIES, ETUDES,
  AND CEPII WORKING PAPER, CEPII, APRIL 2000.

- 'EMPLOYMENT: THE LESSONS FROM THE NETHERLANDS'
  LA LETTRE DU CEPII, N° 187.
  (Available at www.cepii.fr/ANGLAIS/LET0200.HTM).


(5) The collective reduction in working time, whose positive impact on labour productivity has been demonstrated by various studies, could also explain the fact that the slowdown in productivity did not become apparent before 1986, four years after the accords.
The future of "small" currencies

Following the financial crises of 1997-1998 in the emerging countries in Asia, it has been increasingly argued that only extreme exchange-rate regimes - free floating or currency boards (and dollarization) - are viable in a world of high capital mobility. The aim of this research project is to provide both an empirical and a theoretical assessment of this proposition. It uses a new econometric methodology - based on a method of moments - which makes it possible to identify de facto currency pegs. The results show that, since the Asian crisis, genuine free floats have remained very scarce in practice, whereas de facto pegs on the dollar have remained prominent. Subsequently, the impact of various monetary arrangements for smaller currencies on the stability of the key currencies is being examined. A small, theoretical model of "block floating" between the key currency areas is being built. When calibrated with estimates of de facto pegs, this model allows the likely impact of a generalized move towards 'corner solutions' in the volatility of the euro-dollar parity to be assessed. The so-called 'two-corner solutions' are then examined, showing that there are more than two corners once the regional dimension is taken into account. Finally, the project provides preliminary insights into the question of how monetary regimes may move towards these corners, based on historical experience.

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The impact of demographics on labour markets

This project is being carried out for the French Ministry for Employment and Solidarity, analysing the impact of demographic trends on labour markets. Covering the labour markets of several European countries, it will be carried out in collaboration with the CPB (The Hague) and ETLA (Helsinki). In the industrialised countries, demographic forecasts over the next 30 years exhibit both a slow down in growth, and the ageing of the populations. The project analyses the impact of these two phenomena on long term economic growth in the context of clearing labour markets. Theory and empirical studies are inconclusive, showing either a positive or a negative impact on growth. Nevertheless, all studies show that the impact is relatively small. The consequences of these demographic trends on the labour market in the short to medium run are then reviewed, considering different models of the persistence of unemployment. Disequilibrium unemployment, hysteresis and equilibrium unemployment models provide different conclusions with regard to the effect of a slowdown in the growth of the labour force, ranging from a positive impact on unemployment to a negligible effect. Thus, the analysis of the current nature of unemployment and of the level of equilibrium unemployment is key to any assessment of the macroeconomic consequences of demographic trends.

Subsequently, the project assesses the impact of ageing on the labour market. As workers' characteristics are age-specific, there is some degree of market segmentation between young and old workers. The study reviews the differences in the age-related characteristics of workers: qualification, productivity, the wage-setting relationship (existence of an experience premium) and mobility. These features are particularly relevant in assessing the short to medium term effect of demographic trends on the labour market. Indeed, the ageing of the population of working age is already an ongoing process, and the increase in the participation rate of older workers is a possible answer (at least in some countries) to any shortage in labour supply. Hence, the specific conditions under which these workers participate in the labour market have to be taken into account explicitly. The CEPII plans to follow up this project in two steps. First, age groups and cohort specific wage equations will be estimated on the basis of micro data. Subsequently, the economic effects of ageing will be assessed using an AGE model, which integrates the previous equations.

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Long term world growth projections and greenhouse gas emissions

The CEPII is currently constructing a set of projections for world economic growth for the period 2000-2030, broken down for 25 geographic regions. The results will be used to forecast world demand for energy and greenhouse gas emissions over the same period. This work is part of a collaborative project with the IEPE (Grenoble), the IPTS (Seville) and the CIRED-CNRS (Nogent-sur-Marne). It is receiving funding from the French Government's Inter-Ministerial Task Force on the Greenhouse Effect. The aim is to evaluate the sectoral and macroeconomic costs of programmes for reducing greenhouse gas emissions, as foreseen by the international negotiations on Climate Change, and to document the practical possibilities concerning "flexibility mechanisms" and especially emissions trading.

The growth projections are being carried out using a simple, exogenous growth model, with physical and human capital accumulation, implying conditional convergence. The model is applied to more than 120 countries, with 10-year periodicity. All countries are assumed to converge on a stable and uniform growth path for GDP per capita, but absolute levels of GDP per capita may continue to differ. Demographic trends are taken from projections of the United Nations. The GDPs of countries are valued at purchasing power parity. Various scenarios are constructed, according to different assumptions for the rate of investment growth in physical capital: constant investment rates, convergence to a reference value or endogenous evolution as a function of GDP per capita. Preliminary results show an average annual growth rate for world GDP of between 3.2 and 3.6%, over the period 2000 to 2030. The medium scenario shows that the share of Asia in world GDP will increase from 28% in 2000 to 43% in 2030, mostly at the expense of the share of OECD countries.

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  Paris, 23 June 2000

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APPOINTMENTS

• Prof. Lionel Fontagné became Director of the CEPII, as of 15 March 2000. A former scientific advisor to the Centre from 1994 to 1999, Prof. Fontagné holds a chair in economics at the University of Paris I (Panthéon-Sorbonne). He is a specialist in international trade, foreign direct investment and the impact of European integration. Prof. Fontagné is also a member of the editorial boards for the academic journals Revue économique and Économie et prévision.

• Michel Camdessus took on the position of President of the CEPII's Administrative Board in April 2000. Mr. Camdessus was educated at the University of Paris, obtaining postgraduate qualifications at the Institute of Political Studies of Paris, and France's National School of Administration, before joining the French Treasury (Ministry of Finance and Economics), as an Administrateur Civil in 1960. After successive appointments at the Treasury and within the European Community, Mr Camdessus became Governor of the Banque de France in 1984, and subsequently became Managing Director of the International Monetary Fund in 1987, until his retirement from the Fund in February 2000.

NEWS IN BRIEF

• Stéphanie Guichard left the CEPII in June, to work for the IMF in Washington DC. Her colleagues at the CEPII wish her all the best for the future.

• Prof. Agnès Bénassy-Quéré, Deputy-Director of the CEPII, is the joint winner of the "Young economist of the year prize", awarded by the Cercle des Économistes and Le Monde, for the first time in 2000. Prof. Bénassy-Quéré has been connected with the Centre since 1992, and was awarded for her work on international monetary issues.

• The ENEPRI is holding a conference on "EMU and Asymmetries in Labour Markets" (in Europe), the 29 September, at the French Planning Agency (CGP) in Paris.

• Economie Internationale, the CEPII's quarterly academic journal is publishing a special issue (N°83, 3rd quarter 2000) on the Japanese economy: "The Nineties, a Lost Decade for Japan?".

FORTHCOMING

• The Planning Bureau (Brussels) and the ETLA (Helsinki) have joined the European Network of Economic Policy Research Institutes (ENPRI), which includes the CEPII, CEPS (Brussels), CPB (The Hague), DIW (Berlin), FEDEA (Madrid), ISAE (Rome), NIESR (London), and NOBE (Warsaw).
Successive multilateral trade rounds have led to important cuts in tariff barriers. However, such barriers have often given way to non-tariff barriers, which are difficult to quantify. A research project at the CEPII sets out an indirect way for measuring such obstacles to goods trade, based on an evaluation of trade discrimination. The latter is defined as the de facto inequality of access for a given product in a given market, which various foreign suppliers may experience.

The presence of obstacles to trade (tariff and non-tariff barriers) should lead to distortions in the geographic spread of supplies. In a market protected by significant obstacles, only some suppliers will be able to bear the resulting costs, even if the obstacles are the same for everyone (i.e. there is no ex ante discrimination). As a result, the greater the barriers, the more imports will be concentrated on a small number of trading partners and/or the more market shares will be distorted compared to a prorata distribution based on the importance of suppliers on world markets. Such situations will lead to a higher indicator of discrimination.

The fall of discrimination rates between 1971-73 and 1995-97 implies that there is a general tendency towards liberalisation (Bottom Graph). The results confirm the lead of the industrialised countries in opening up markets. They also show up the persistent difficulties of access to the Japanese market, compared to the openness to trade of Anglo-Saxon countries (Top Graph). Apart from countries like China or Korea (which began opening up in the 1970s, even though discrimination remains high in the case of China), the LDCs began opening their markets more during the second half of the 1980s (especially Brazil and Turkey). This latter trend has led to relatively quick catch-up with levels of accessibility found in the industrialised countries.

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