Fiscal Policy under EMU

At its meeting in Dublin in December 1996, the European Council endorsed a blueprint for a ‘Stability and Growth Pact’ that will reinforce budgetary discipline in the euro zone to be formed on 1 January 1999. This pact provides a detailed definition of the ‘exceptional and temporary circumstances’ that will allow a budget deficit above 3% of GDP acceptable, and establishes a procedure for setting fines for countries deemed to have excessive deficits. Yet, what are the economies of the stability pact?

Since its inception in the late 1980s, the academic debate over fiscal policy under Economic and Monetary Union (EMU) has been dominated by two intertwined issues: (i) the degree of fiscal policy autonomy that EMU members should retain to be able to offset asymmetric shocks, and (ii) the risks that ‘excessive deficits’ in any member country may present for others, as well as the respective roles of peer pressure and market signals in fostering budgetary discipline. Research has obviously not led to unanimous conclusions on these matters, but many economists would probably agree that:

(i) Fiscal autonomy should be preserved. As price rigidities will not vanish on 1 January 1999, a major potential cost of EMU is the weakness of adjustment mechanisms in the presence of asymmetric shocks. Although fiscal policy is not a perfect substitute for monetary policy, it is important that member states retain fiscal autonomy to offset such shocks. Furthermore, borrowing can be preferable to changing relative prices if the shock is temporary.

(ii) Discipline is a long-term issue. The key channel through which a lack of fiscal discipline could threaten the stability of EMU is excessive public debt accumulation in a member state, which would eventually force the European Central Bank (ECB) to choose between monetising the debt (thereby threatening price stability in the union) and forcing the indebted government into default (thus threatening financial stability). Expectations of monetisation or bail-outs should lead markets to underprice the risk of default, and governments to embark on excessive debt accumulation. There are different views on the enforceability of no bail-out provisions, but peer pressure, if any, should be directed towards monitoring debt ratios rather than deficits.

The ‘stability pact’ focuses on deficits, even though excessive public debts are the greater problem.

The ‘stability pact’ agreed upon at the European Council in Dublin barely squares with these propositions. Although the German case for fully automatic sanctions was finally not endorsed, potentially severe restrictions on national fiscal autonomy were accepted: first, potential members of the euro zone are committed to adopting a balanced-budget target; second, a country whose general government deficit exceeds 3% of GDP will be subject to fines if no corrective action is taken in the following quarters, unless the deficit can be justified by ‘exceptional and temporary circumstances’, such as a deep recession. There is thus room for political judgement, but the philosophy of the pact is crystal clear: preventing excessive deficits, if a conflict of objectives occurs, comes before stabilising output.
It could nevertheless be argued that the room for manoeuvre is significant, as a typical EU country starting from a balanced budget situation would be able to let the automatic stabilisers partially offset a 6 percentage point growth shortfall before reaching the limit. And a nearly balanced budget would certainly make sense for many member states. However, prudent macroeconomic management would actually require a structural surplus in countries like Sweden, whose budget receipts are strongly income-elastic (Sweden’s budget balance deteriorated by 17 percentage points of GDP during the last recession). The same prudent management would require a high-debt country like Belgium to target a primary surplus in the order of 7% of GDP, 2.3 percentage points higher than the level needed for the debt ratio to converge towards 65% at an acceptable pace. Even for countries like France or Germany, achieving balanced budgets will require significant additional efforts.

It is thus most likely that, in the medium term, the structural budget balances of a majority of member states will fall short of these targets, thereby limiting their ability to stabilise output while keeping deficits below 3%. Moreover, the stability pact could well reduce the effectiveness of the automatic stabilisers even before the 3% limit is breached, as expectations of upcoming taxation could lead agents to behave in a more Ricardian way. The burden of stabilisation in the presence of symmetric shocks is therefore most likely to fall on the ECB. Imagine for example that as the euro zone is hit by an adverse demand shock, and the pact leads fiscal policies to turn restrictive. The ECB would then be bound to compensate the effects of fiscal retrenchment through monetary expansion. De facto, an unintended consequence of the stability pact could well be to put limits on the ECB’s freedom of manoeuvre.

The pact could well limit the European Central Bank’s room for manoeuvre.

Fines would be justified if deficits over 3% of GDP have adverse spillover effects upon partner countries. But this case has never been made convincingly. With well-functioning financial markets, the variance of the fiscal balance in any particular country should not impact upon aggregate interest rates. Furthermore, a country with a fiscal deficit could only be deemed to be exerting a negative externality upon its neighbours if private savings fall short of the sum of private investment and the deficit, i.e. if it is running a current account deficit. Italy illustrates that there is no systematic reason why this should happen, even with very high deficits. Conversely, a country whose savings rate is permanently low could draw upon common savings (thereby driving interest rates up) without having a public deficit in excess of 3% of GDP. This is, after all, the situation of the US, whose government deficit is only 2% of GDP, but which has nevertheless a permanent current account deficit. The exclusive focus on current deficits that characterises the stability pact is therefore hardly justifiable on economic grounds. It would have been much more preferable to focus on debts that increase from an already high level, for which identified spillover channels exist.

The pact cannot be considered as a substitute for policy coordination.

Can the stability pact then be justified on coordination grounds? Provided the threat of sanctions effectively compels governments to abide by its provisions, it will have the merit of providing the ECB with information about the future course of fiscal policies, especially when deficits are getting close to the 3% threshold. In this way, it should help solve the informational problem that the ECB will face when forming expectations about the participants’ future fiscal policies. This illustrates the virtues of rules-based coordination. However, the stability pact will not act as a coordination device in all circumstances: for example, it will provide no information on fiscal policies in the presence of an inflationary boom. All in all, the pact cannot be considered a substitute for policy coordination in the euro zone.

If the economics of the pact are unconvincing, what about the politics of the pact? A possible justification for EMU-wide rules could be that they are less necessary for the operation of EMU than in their own right. According to this view, the stability pact is a blessing in disguise, because it compels national governments to follow sound principles that they are incapable of imposing on themselves. It is true that due to unfunded implicit pension liabilities, the long-term European outlook on deficits and debts are worrying enough to justify ambitious budgetary targets. However, it is disputable that EMU should be treated as an occasion to oblige member states to make inter-generational choices, however sound those choices may be. Constraints arising strictly from participation in a monetary union are tight enough for the EU not to have to add additional ones that would aim at forcing the member states into ‘good policies’. With the best intentions in mind, an overload of constraints can be a recipe for making a good project unpopular.

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FOR FURTHER INFORMATION SEE:

• ‘UEM : ÉLUS, EXCLUS ET PRÉTENDANTS’,
  ÉQUIPE MIMOSA CEPII-OFCE,
  LA LETTRE DE CEPII No 152, DECEMBER 1996.

• ‘LA COORDINATION INTERNE ET EXTERNE DES POLITIQUES ÉCONOMIQUES : UNE ANALYSE DYNAMIQUE’,
  P. VILLA, CEPII WORKING PAPER, No 96-15,
  DECEMBER 1996.

(1) According to the OECD, the effect of a 1% output decline in a EU member state is to increase the deficit ratio by an average of 0.53 percentage points.

(2) Furthermore, the focus on deficits is most likely to encourage the development of off-budget, debt-creating operations.
RESEARCH SUMMARY

The Single Market and European Trade Patterns

The European Commission is about to publish a report on the impact and effectiveness of the Single European Market (SEM). This report is based on some forty background studies, most of which concern specific industries or services (such as chemicals, motor vehicles, insurance or air travel). Other studies are of a more general nature (e.g. concerning foreign direct investment, convergence of prices, or trade with third countries). As part of the latter, the CEPII was selected to analyse patterns of intra-EU trade flows, as well as general and SEM-specific effects on intra-industry trade.

Ex ante studies suggested that the Single European Market would tend to lower prices through increased competition, induce market structure transformations, and foster a concentration of resources in more efficient uses. These effects would translate into sizeable welfare gains, increases in GDP, and increased competitiveness vis-à-vis non-member countries.

Even if trade per se was not the focus of ex ante studies, the implicit assumption was that trade liberalisation would translate into an increase in trade flows within the Community, and that most of this increase would be intra-industry trade (IIT) i.e. simultaneous exports and imports within industries. This reasoning was based on the experience of the implementation of the Common Market. The latter was accompanied by a sharp increase in intra-European trade, but did not lead to a clear-cut specialisation of member countries.

This view was subsequently challenged on the grounds that agglomeration economies would favour inter-industry trade in the same manner as in the United States, where states and regions exhibit a much higher degree of industrial specialisation than do European countries. In Europe, as argued by Paul Krugman for example, IIT could be due to obstacles to free trade and specialisation.

The CEPII’s analysis of intra-industry trade distinguishes between horizontally and vertically differentiated goods.

The CEPII’s investigation was carried out at the most detailed level for which statistics are available. The study differs from traditional approaches in several respects, and takes into account the important distinction between horizontal and vertical product differentiation, the former generally being associated with an exchange of varieties and the latter with an exchange of qualities sold at differing prices.

Depending on the degree of overlap in trade and the similarity in unit values (a proxy for prices which in turn reflects quality) total trade was broken down into three trade types:

(a) one-way trade, corresponding to inter-industry trade;
(b) two-way trade in similar products, corresponding to intra-industry trade with horizontal differentiation;
(c) two-way trade in vertically differentiated products corresponding to IIT with vertical differentiation.

The rise of Europe’s intra-industry trade is dominated by vertically differentiated products.

From 1980 to 1994, intra-EC trade was characterised by an increase in intra-industry trade, especially from the mid-1980s onwards. But in contrast to what is often implicitly assumed, the rise in IIT does not concern horizontally differentiated products, but products which are vertically differentiated, i.e. sold at different prices. This phenomenon is also found for each EU-member state.

Source: Eurostat Comext, calculations by the CEPII.

1The shares of the three trade types add up to 100%. The traditional Grubel & Lloyd indicator measures the degree of overlap between exports and imports in total trade.

(1) In order to avoid geographical or sectoral biases, trade patterns were measured using information on values and unit values for bilateral intra-EC trade flows for some 10,000 products, from 1982 to 1994.
(2) For details see Fontagné and Freudenberg, forthcoming.
Trade Type in Intra-EU Trade

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<td>Two-way trade with horizontal differentiation</td>
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<td>Two-way trade with vertical differentiation</td>
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<tr>
<td>OWT</td>
<td>One-way trade</td>
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Adjustment costs should be negligible in the case of IIT in similar products, since imported and exported products have a similar factor content. In contrast, these costs may be sizeable in the case of IIT in vertically differentiated products, since specialisation in high- as compared to low-quality products might have different consequences in terms of catching up and income distribution among countries: the quality range on which countries specialise is not 'neutral'\(^3\).

The Single Market has had controversial effects, leading simultaneously to IIT and specialisation.

Bearing in mind these implications, the emphasis here is on the share of IIT in vertically differentiated products, even if the share (and value) of each trade type was explained separately.

In order to estimate the Single Market’s impact, the general determinants of the nature of intra-European trade need to be accounted for, drawing from both traditional and modern trade theory. Among the general determinants which increase the share of IIT in vertically differentiated products are market size and average \textit{per capita} income (leading to a larger quality spectrum, thus raising consumers’ welfare and producers’ efficiency), as well as returns to scale. An important finding is the positive impact of differences in \textit{per capita} income (a proxy for economic distance), possibly leading to more opportunities for specialisation along the quality spectrum within industries. In contrast, transport (or more generally transaction) costs, as well as exchange rate variations reduce IIT with vertical differentiation.

Once these determinants are controlled for, the major effects of the SEM are as follows\(^4\):

(a) Since Non-Tariff Barriers were obstacles to a clear-cut specialisation among European countries, intra-industry trade had been boosted to artificially high levels before the completion of the SEM. Their cancellation thus reduced IIT with vertical differentiation.

(b) In contrast, border formalities were not an obstacle to specialisation due to comparative advantages in Europe: where such advantages had been the basis for trade, differences in costs had been large enough to overcome additional transaction costs. Thus, the cancellation of border formalities, while reducing these transaction costs, has mainly boosted intra-industry trade.

(c) Finally, agglomeration economies -potentially detrimental to the cohesion of the Community- were identified for some industries: the difference in market size (and thus in economies of scale) has clearly led to a reduced share of IIT in total trade for chemicals, non-electrical machinery, motor vehicles, mining and quarrying.

On the whole, the impact of the SEM is controversial, some factors leading to specialisation, with others pushing in the opposite direction. But what is more striking is the positive, direct effect of growth on IIT, an effect which has been reinforced by the positive impact on growth of the SEM itself.

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For further information see:


\(^3\) As shown in the author's report, the difference between Northern and Southern countries is striking once overall strengths in price/quality ranges are analysed. While Northern countries show up comparative advantages in up-market products (Ireland and Germany), in the medium- and up-market range (France) or in medium-market goods (United Kingdom, Netherlands, Belgium-Luxembourg and Denmark), Southern countries are specialised in the lower quality range: down-or medium-market goods for Spain and Greece, and down-market products for Italy and Portugal. This, however, does not prevent some countries from being specialised in up-market products in their key industries, e.g. Italy in textiles or the United Kingdom in chemicals.

\(^4\) The accession of Spain and Portugal to the EC in 1986 has had a negligible impact on the overall results.
RESEARCH AGENDA

THE LINKS BETWEEN TRADE AND FDI

The CEPII is currently constructing an original database on trade and FDI (flows and stocks) using a single industry disaggregation, which will permit econometric estimates of the relationship between trade and FDI, especially regarding substitution versus complementarity. Estimates are carried out on a strict bilateral basis, controlling for size, income, transport costs and commercial preferences between each pair of countries. In addition, possible spillover effects between industries, or between industries and services have to be taken into account, leading to an estimate for each industry, then for manufacturing industry as a whole, and finally for the economy. The empirical evidence is provisionally based on US and French data for FDI flows with about 40 partners, from 1984 to 1994. It clearly leads to a diagnosis of complementarity:

- $1 of French investment abroad leads to 80 cents in additional exports and 60 cents in imports, to and from the host country. Reciprocally, $1 of inward investment leads to a $1.4 increase in French imports from the investing country, and only to $1 of additional exports to the latter country;

- for the US, the complementarity is even more striking: exports and imports expand respectively by around $2.5 for every additional $1 of investment abroad. In contrast, foreign investment in the US leads to less trade than for France: respectively 50 cents for exports and 80 cents for imports only.

Results obtained for data in stocks differ slightly: FDI is less complementary to trade, especially for foreign investment in the US where it is a substitute to trade, possibly as the result of a tariff-jumping strategies by foreign companies.

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INTEREST RATES IN EAST ASIAN COUNTRIES

Financial liberalisation has greatly advanced in East-Asian countries, while the flows of international capital have been increasing. The economic literature has recently emphasised external aspects of this liberalisation, since the issue is particularly important for international financial integration. Numerous papers have addressed the issue of a monetary zone in this region. One of the questions to be asked is if the Asian countries are submitting themselves to financial influences from the United States or from Japan. Is this area a dollar versus a yen area? Evidence shows that the dollar still exercises a strong influence in the area. However, the external aspects are only part of the matter. Key domestic interest rates may react to international rate movements, but some financial markets may be isolated from those movements, if financial markets in the region are still segmented.

The purpose of this project is first to assess the integration of the different domestic financial markets in Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. Then it will be possible to return to the question of the external monetary integration of these countries. As the financial environment is changing very rapidly in the area, it is important to use recent data so as to identify new trends, if any. The weekly data used in the project permit an analysis of trends in the late eighties and the nineties.

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STRUCTURAL ASYMMETRIES IN EUROPE IN THE RUN-UP TO EMU

With just two years to the launch of EMU, no consensus prevails about the degree of asymmetry between its likely members. This research project mainly uses two approaches to assess integration. The first rests on Optimal Currency Area theory and points out that the degree of symmetry in shocks affecting economies is a crucial determinant of a successful monetary union. The more asymmetric the shocks, the more painful the loss of the exchange rate instrument will be. The empirical literature measures asymmetries of shocks by the correlation coefficient of such shocks over a given period in the past. This approach has the drawback of assuming that the correlation coefficient is stable over the period: there is no room for increasing (or decreasing) correlation, nor for a one-off exogenous event, such as an oil price shock or German reunification. A second approach to the issue is found in the literature on the Maastricht criteria. It attempts to assess the convergence of nominal and real variables among potential EMU members. This method is dynamic, but is scarcely applied to measure structural convergence.
Recent Publications

**ECONOMIE INTERNATIONALE, QUARTERLY**

- No 68, 4TH QUARTER 1996.
- "Austerity budgetaire, credibilite des politiques budgetaires et comportement de consommation"; P. Artus
  Comment by R. Ford
- "Existe-t-il des ajustements budgetaires indolores?"; P. Cour, E. Dubois, S. Mafouz, J. Pisani-Ferry
  Comment by P.-Y. Hénin
- "Les politiques budgetaires en Europe à la veille de l’Union européenne"; G. de Menil
  Comment by M. Debonneuil
- "Politique monétaire dans une petite économie ouverte liée à une grande économie par un taux de change fixe : le cas de l’Autriche entre 1974 et 1993"; D. Pellissier
- "Exchange Rate Policies in Emerging Asian Countries, workshop, Séoul, September 1996"; P. Cour, V. Coudert
- No 67, 3RD QUARTER 1996.
- "La crise du système bancaire japonais"; S. Guichard
- "L’investissement direct dans la transformation chinoise"; Y. Shi
- "La géographie de l’Europe multi-estinée"; P. Martin, G. Ottavianio
- "Faut-il relancer le G7 ? note de lecture"; O. Cortes

**LA LETTRE DU CEPII, MONTHLY**

- "UEM : élus, exclus et prétendants"; Equipe MIMOSA CEPII-OFC
  No 152, DECEMBER 1996.
- "Les coûts salariaux en France, en Allemagne et aux Etats-Unis"; O. Cortes, M. Fouquin, S. Jean
  No 151, NOVEMBER 1996.
- "Les fonds de pension chilien : un tout petit miracle"; J. Sgard
  No 150, OCTOBER 1996.
- "Faut-il aller contre le cycle"; P. Martin
  No 149, SEPTEMBER 1996.
- "Une image de l’économie mondiales à l’horizon 2030"; P. Cour, H. Delessy
  No 148, JULY-AUGUST 1996.
- "Libre-échange euroméditerranéen : marché de dupes ou pari sur l’avenir ?"; L. Bensidoun, A. Chevallier
  No 147, JUNE 1996.

**Books, by CEPII Researchers**

- **Europe-Méditerranée : le pari de l’ouverture**
  I. Bensidoun, A. Chevallier
  182 p., coll. CEPII, Economica, FF 98.
  This book presents detailed economic data for the Mediterranean countries, and seeks to provide a thorough analysis of their economic outlook, their relations with the European Union and the challenges of trade liberalisation.

- **Economie mondiale 1997**
  A. Chevallier, D. Pinede (eds.)
  This is an annual CEPII publication outlining major events in the world economy for a wide readership.

- **CEPII Working Papers**

  - "The cost of the Fiscal Retrenchment Revisited: How Strong is the Evidence"; P. Cour, E. Dubois, S. Mafouz, J. Pisani-Ferry
    No 96-16, DECEMBER 1996.
  - "Les dynamiques sectorielles de la croissance en Europe centrale"; F. Lemoiné
    No 96-15, DECEMBER 1996.
  - "Growth and Agglomeration"; P. Martin, G. Ottavianio
    No 96-14, DECEMBER 1996.
  - "La coordination interne et externe des politiques économiques : une analyse dynamique"; P. Villa
    No 96-13, DECEMBER 1996.
  - "L’intégration asymétrique au sein du continent américain : un essai de modélisation"; P. Cour, F. Rupprecht
    No 96-12, OCTOBER 1996.
  - "Croissance et contrainte financière dans les PED"; P. Villa
    No 96-11, OCTOBER 1996.
  - "Bulgaria from Entreprise Indiscipline to Financial Crisis"; R. Avruhov, J. Sgard
    No 96-10, JULY 1996.
  - "Potentialities and Opportunities of the Euro as an International Currency"; A. Bénassy-Quéré
    No 96-09, AUGUST 1996.
  - "Credit Crisis and the Role of Banks during Transition: a Five-Country Comparison"; J. Sgard
    No 96-08, JULY 1996.
  - "Exchange Rate Regimes and Policies in Asia"; A. Bénassy-Quéré
    No 96-07, JULY 1996.
  - "France in the Early Depression of the Thirties"; P. Villa
    No 96-06, JULY 1996.
Events: Seminars and Meetings

- The Economic Cost of Market Instability
  A. Ieud (BS) ; O. Davanne (Goldman Sachs)
  26 December

- Present Issues for Monetary Union: Insiders and Outsiders, the Stability Pact
  M. Aglietta (CEPII) ; J. Pisani-Ferry (CEPII)
  12 December

- The Transition: Macroeconomic and Structural Aspects
  N. Stern (EBRD and London School of Economics)
  29 November

- European Migration Perspectives
  B. Faito, (CEPR & University of Brescia, IGER, CESPRI, Milan)
  M.-L. Levy (INED)
  22 November

- World Investments in 1996
  L. Krieger Mytelka (UNCTAD) ; J.-L. Debar (CCFA)
  7 November

- The Costs and Benefits for the United Kingdom of Membership of the European Union
  P. Minford (University of Liverpool)
  9 October

- Exchange Rates in Asia
  F. Benaroya & D. Jancz (DREE), A. Béassy-Quéé (CEPII), J.-L. Martin (Indosuez)
  19 September

- The Macroeconomic Effects of Fiscal Adjustments
  Seminar and round-table jointly organized by the DELTA and the CEPII
  12 September

- Russia after the Presidential Elections
  J. Sapir (EHESS), G. Wild (CEPII)
  11 July

News in Brief

- Nanno Mulder joined the CEPII on 1 October 1996. He holds a PhD from the University of Groningen (Netherlands), and has already worked with the CEPII. He will be responsible for running the CEPII’s ‘international trade’ database.

- Loïc Cadieux joined the CEPII’s macroeconomic team on 1 October 1996. Trained at ENSAE, and holding an MPhil-equivalent from the Ecoles des Hautes Etudes en Sciences Sociales, he will work on the MIMOSA macroeconomic model which is managed jointly by the CEPII and the OFCE.

- A Franco-British seminar was held by the CEPII, FNSP, SEAE, IFRI and RIIA on the 9 October 1996, in Paris. Papers were presented by G. Fuchs (CNRS), P. Minford (University of Liverpool), P. Jacquet (IFRI), M. Wolf (The Financial Times), F. Schwab (IFRI), J. Pisani-Ferry (CEPII) and L. Fontagé (CEPII, Univeristy of Paris I) concerning the European Single Market and EMU.

- The CEPII, together with the French Planning Agency, the DELTA and the University of Evry, is henceforth organising the Journées internationales du Plan. P. Krugman (MIT) spoke on the issue of ‘globalisation’ on the 18 October 1996, while P.N. Giraud (CERNA) and J.-M. Siroen (University of Paris IX) presented papers on the relationship between trade, employment and social policy on the 25 November 1996.

The CEPII WEB SITE
The CEPII now has a web site (http://www.cepii.fr). It provides general information about the Centre, its research projects, publications and meetings. The site also provides direct e-mail links to the Centre’s researchers and associates, as well as links and addresses for other web sites containing economic information. The site is available in both French and English.

The full text of some of the Centre’s publications, in particular CEPII Working Papers and the Lettre du Cepii, can be obtained on-line (in PDF format).

The site uses French and English.

CEPII-CPR Visiting Fellowship in International Monetary and Financial Issues

The CEPII and the Compagnie Parisienne de Résescompte (CPR - Paris) are creating a joint, visiting fellowship for a researcher in international monetary and financial issues. The laureate will be invited to spend about three months to do research at the CEPII in the spring-summer of 1997, and to present his/her work at the CPR. In addition to being reimbursed for travel costs, he/she will be awarded FF50,000 to cover accommodation and living expenses.

Topics for research should relate to major issues in international monetary matters and finance, such as exchange rates, monetary policy, public debt, the EMU, monetary and financial linkages among major industrialised economies, and emerging markets.

Applicants should send a résumé (CV) and research project, together with a 1-page project outline to Jean Pisani-Ferry at the CEPII. The selection will be made by the CEPII, in cooperation with the CPR.

Applications should reach the CEPII before 15th March 1997. The selection will be announced at the beginning of April.

For further information please contact Benoît Molon at BENOIT.MOLON@CEPIII.FR

Forthcoming

- A special issue of the CEPII’s journal Economie Internationale will be dedicated to potential growth and output gaps, in the first quarter of 1997.

- The CEPII and the CEPR are organising a joint workshop on ‘Growth, Trade and Location’ on the 26 May 1997, in Royaumont outside Paris.

- The CEPII, the OECD Development Centre and the CEPR are publishing the papers, in book form, of the a joint conference held in October 1995, in Budapest. The document will be released in the spring of 1997, and is titled ‘Different Paths to a Market Economy: China and European Economies in Transition’.
The share of services in GDP has increased rapidly since World War II. However, their share in international trade has stagnated and remains low compared to manufacturing (19 per cent and 62 per cent respectively in 1994). Yet, major changes have occurred within the composition of traded services: the share of producer services (in total services) increased from 25 per cent in 1967 to 40 per cent in 1994, while that of transport has diminished. The growing importance of services in the industrialised countries raises the question of whether specialisation in services may provide an alternative to specialisation in manufacturing. The graph shows the relative specialisation in services and manufacturing, measured by the net contribution to the current account, an indicator developed by the CEPII.

As expected, the majority of the countries were found in the second and fourth quadrants, indicating specialisation in either manufacturing or services. The United States, the United Kingdom, Austria, Switzerland, and the Mediterranean countries have a relative advantage in services and a disadvantage in manufacturing. For Japan, Germany, Canada and Scandinavia the opposite is true, while Mexico and South Africa are outliers, being at the same time specialised or unspecialised in manufacturing and services. Mexico’s favorable position in manufacturing and services is neutralised by payments on its outstanding foreign debt, while South Africa’s strong comparative advantage in mining compensates for its deficit in both activities.

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The CHELEM (Harmonised Accounts on Trade and the World Economy) database provides harmonised, long term data on trade, economic growth and population, stretching back to 1967 and to 1960 for some series. The database breaks down the global economy into 53 countries/geographic regions, and 71 product categories. Also included are data on PPPs and exchange rates. The database is bilingual (French-English), 'user friendly', and is available on CD-ROM.

For further information please contact Colette Herzog at the CEPII, tel: (33) 1 53 68 55 27.

CEPII
CENTRE D'ETUDES PROSPECTIVES ET D'INFORMATIONS INTERNATIONALES

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