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## *FOCUS*

### **Inequality and Openness**

Inequalities and their link to economic openness are among the major controversies provoked by the globalisation process. A first issue to be addressed, however, is related to the measurement of inequalities: according to some authors, inequalities are decreasing, while others state that they are increasing. How is this possible? Much depends on the concept of inequality which is used.

In "L'Economie mondiale 2005" (2004), Isabelle Bensedoun sets out the different concepts of inequalities: between countries, between populations of countries and between individuals. This explains partly why results in the measurement of inequalities can appear so contradictory. She surveys the empirical and theoretical elements which may relate openness to inequalities.

Loïc Cadiou and Pierre Villa (1998) compare results using the Gini coefficient and the Theil index. These indicators all more or less show that there has been a decrease in international inequality when weighted by population, but an increase in inequality when one country provides a single observation, whatever the size of its population.

Isabelle Bensedoun, Agnès Chevallier and Guillaume Gaulier (2001) highlight the distribution of GDP *per capita* and its evolution between 1960 and 2000 throughout the world. If in 1960, many countries were concentrated around the average GDP *per capita*, by 2000 countries could be split into three different groups: some middle-income countries had converged towards the upper income group while others had fallen behind. Meanwhile, the gap between average incomes in the richest countries and average incomes in the poorest countries had grown (from 100: 6.9 in 1960, to 100: 5.3 in 2000).

Is economic openness or isolation the main explanation for these trends?

Proponents of liberalisation depict international trade as a strong factor favouring growth and thus economic catching-up by developing countries. Integration in international markets is seen as a way to get access to modern technology facilitating the modernisation of lagging economies, and so ultimately accelerating the convergence process. These countries could thus be the main beneficiaries of economic integration. But, as pointed out in the theoretical literature, countries lacking a minimum industrial base could actually suffer from economic integration and be caught in poverty traps as a result.

In a seminal study, Dan Ben-David (1996) observed that trade-based groups of countries (groups comprising major trade partners) are more likely to exhibit convergence than groups of randomly selected countries. The robustness of this result is assessed in Guillaume Gaulier (2003). Ben-David's finding of absolute (beta-) convergence within trade-based groups is confirmed but it is not sufficient to imply a significant reduction in standard of living differences (sigma convergence). Second, Guillaume Gaulier argues that the extent of convergence within trade-based groups depends on the concept of trade intensity which is used to build these groups. Little evidence of either beta- or sigma- convergence is found when the size of countries in trade groups is controlled for. Finally, the evidence for trade as a channel for convergence remains limited.

Furthermore, as suggested by the modern trade theory, trade specialisation matters (Isabelle Bensidoun, Guillaume Gaulier and Deniz Ünal-Kesenci, 2001): exporting goods facing weak demand (generally primary products like minerals or food & agriculture), and having a low technology content will hardly lead to positive, long-term growth performance. According to these results, policies supporting specialisation in growth-engine sectors, in which a country lacks comparative advantage, might have a positive impact on long-term growth.

The widespread increase in "within countries" inequalities in the developed countries has been well documented, while developing countries have experienced different outcomes, broadly characterised by increased inequalities in Latin America, and decreased inequalities in East Asia. Understanding the link of such evolutions with foreign trade is the subject of on-going research at the CEPII (Isabelle Bensidoun, Sébastien Jean and Aude Sztulman).

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## *ON THE RESEARCH AGENDA*

### **China's Integration Into Asian Production Networks**

This research project analyses the rapid progress and the consequences of China's participation in the international segmentation of production processes and of its integration into Asian production networks. The first section of the research points out how globalisation provides new opportunities for latecomers to enter international trade through production sharing, which has been an especially widespread phenomenon in Asia. The second section investigates how China has taken advantage of the globalisation process and assesses the consequences for bilateral trade imbalances of China's integration in Asian production networks.

An in-depth analysis of trade flows (using Chinese customs statistics) leads to the following conclusions: international processing activities, based on inputs imported from Asian countries, have been the engine of China's trade expansion, allowing for a rapid diversification of its manufacturing export capacities; foreign affiliates have been responsible for a major and ever-growing part of China's export growth, especially with Asian countries; China's position in "triangular" trade is characterised by growing deficits with Asia in intermediate goods, especially in parts and components, and by rising surpluses with "Western" countries in final goods, mainly consumer goods but also increasingly in capital goods; imports of parts and components from Asia have been the major channel of technology transfers, which have helped China to improve rapidly the high-tech content of its exports. However the technological upgrading of China's trade has remained quite

circumscribed to foreign firm's export bases.

The third part of the project focuses on the changes in Asian country trade patterns over the last twenty years. It highlights the intensification of intra-regional trade in intermediate goods and the rise of late-comers (China and the ASEAN countries) as suppliers of final goods both to the region and to the rest of the world. China's participation in the Asian division of labour follows a pattern which appears to be quite similar to that of the ASEAN countries, but the size of China's economy gives the country a trade potential which has considerably affected "triangular" trade, as Chinese exports to Western markets have displaced Japanese and NIE exports at a fast pace and are overtaking all other Asian exporters in sectors such as electrical and electronic goods.

China's emergence thus carries the mechanisms of triangular trade to extremes. Moreover, in the late 1990s, it was accompanied by a levelling off of exports from the second tier of new industrialised economies (the ASEAN countries excluding Singapore), suggesting that the latter may be crowded out of these markets by China. The fourth part of this work sets out the implications of China's rise in triangular trade for Asian regional integration and for international trade imbalances.

Guillaume Gaulier, Françoise Lemoine & Deniz Ünal-Kesenci

## **The Regionalisation of International Trade and Investment**

Regionalisation is a widespread feature of international trade. Among the eighty countries considered, all but ten carry out more than half of their foreign trade with one of the world's three major trading regions (the Americas, Asia-Oceania and Eurafrica). This regional polarisation is especially strong in Eurafrica, where the region accounts for more than 75% of foreign trade for most countries therein. The regional polarisation of foreign trade is more limited in the Americas, but it is still significant, particularly for the US's neighbours, Mexico and Canada. Asia-Oceania is the region exhibiting the weakest polarisation. However, intra-regional trade accounts for around 55 to 60% of total trade, except for the largest three economies in the region (Japan, China, South Korea).

In order to qualify these observations further, we use relative trade intensities (RTIs). The RTI index characterises the intensity of trade relationships between a pair of partners by comparison with the total trade of each of these partners. As such, it refers to the geographical orientation of trade flows, controlling for total trade flows of both partners. The analysis points to the especially intense trade links of former communist countries with each other, and with Western Europe. It also emphasises the relatively intense trade links within Latin America, and between many Southeast Asian countries.

Since distance is an obstacle to trade, countries trade more intensively with their neighbours. The regionalisation of foreign trade is to some extent a "natural" phenomenon, in the sense that countries tend to trade in large part with other countries belonging to the same "region". But there is more to regionalisation than natural trading relationships with neighbours. Regional trade arrangements (RTAs) might also have contributed to strengthening trade relationships within regions.

The number of RTAs surged dramatically in the 1990s. By 2003, up to 189 agreements had been notified to the WTO. While the increase during the last decade has been spectacular, RTAs are not a new phenomenon. It has become usual to distinguish three waves of regionalism: the first beginning with economic integration of Western Europe, and the second with economic integration in North America. The surge observed since the mid-1990s, resulting mainly from agreements signed by former communist countries, corresponds to the third wave. Major agreements are briefly reviewed, emphasising *inter alia* the importance of agreements signed in Latin America.

In order to gain further understanding of how these agreements may have shaped trade patterns, we provide an empirical analysis for a large number of countries covering the whole

world, for the period 1967-2001, based on the CHELEM-CEPII database. This analysis updates and extends the work carried out in Freudenberg *et al.* (1998).

The most salient particularity of the analysis is probably to control for country-pair, fixed-effects when assessing the impact of RTAs on trade flows. In other words, the estimates only focus on the intensity of the trade relationship between any country-pair, compared to its mean level across the period. Working exclusively for any country-pair, in comparison to the mean level of trade intensity, makes it possible to control for any pairwise-specific, time-independent country links, such as distance, language, former cultural ties (colonial for example), etc. This is a significant improvement in methodological terms, which has never been carried out before on a world-wide basis for such a long time span, to the best of our knowledge, except by Freudenberg *et al.* (1998), Fontagné *et al.* (1999) and Cheng and Wall (2003). Introducing these country-pair, fixed-effects is found to have a very strong influence on the results.

The results allow differences across agreements to be characterised. The only important feature, common to all the agreements studied, is to strengthen trade relationships between members, but this is almost a tautological result. The EU, EFTA and MERCOSUR, strongly boosted trade between members as far as final goods are concerned. With regards to third countries, they induced trade creation (except in the case of the EU regarding primary products). NAFTA has also spurred significantly trade between its members, but it is difficult to reach general conclusions about its effects on third countries. Nevertheless, the mixed impact of NAFTA on trade with third countries stems mainly from the poor export performance (in particular of the US) during the 1990s, compared to the predictions of the model. In terms of imports, NAFTA is unambiguously found to have induced trade creation. The ASEAN induced strong trade creation with third countries, and this trade creation consisted of imports of primary goods and exports of transformed goods, pointing to the increased division of labour across member countries.

In contrast to many previous studies, no clear evidence is found of the trade-diverting impact of RTAs. The Australia-New Zealand CER ends up associated with lower trade with third countries, but this is mainly linked to lesser exports, and it is not clear whether this should be interpreted as trade diversion. The Andean Community induced trade diversion for transformed goods, but this seems to have been more than compensated for by trade creation in the other production stages. The COMECON is found to have substantially diverted imports in final products, and this effect was apparently only partially balanced by import creation in primary and intermediate goods.

Given the contrasting results across agreements, it is not possible to make any forecasts about the possible effects of future agreements. It is necessary to proceed by analogy with existing agreements in order to gain further understanding of any particular agreement's likely impact. Broadly speaking, the results show that large RTAs generally create new opportunities for foreign producers, given the possibilities they offer to access a large market in a single country. This is mainly the case when the RTA is also a customs union: market access to member countries is harmonised, and re-exports within the customs union are not restricted, thus creating a single market from the point of view of the exporter. When an FTA is not a customs union, each member country maintains its own pattern of protection, and therefore imposes local content requirements on its imports from other member countries. This limits the advantages third-country exporters can draw in terms of easier market access. These conclusions should, however, be considered as tentative: strictly speaking, the estimates do not provide insights about the impact of future agreements, they only assess the impact of past agreements.

The dynamics of regionalisation are also studied. In this respect, *prima facie* evidence points to the outstanding increase in the share of intra-regional flows in Southeast Asian foreign trade. This raises the question of whether it is due to any trend specific to this region. The estimates proposed allow this evidence to be put into perspective. In fact, the increase in intra-regional trade in Southeast Asia is inferior to what would have been predicted, based on the changes witnessed in economic size, income levels, and similarities in trade specialisation, as well as the enforcement of the ASEAN FTA. In North America, an upward sloping, unexplained regionalisation trend is found until the mid-1970s, while no such trend is found in

Western Europe. These results emphasise the leading role played by the institutional process of regionalisation in North America since the late 1980s, and in Western Europe with its periphery, throughout the whole period of 1967-2001.

Guillaume Gaulier, Sébastien Jean, Deniz Unal-Kesenci

## **European Industry's Insertion in the International Division of Labour: the Present Situation and Outlook**

European industry's place in the International Division of Labour is challenged by emerging economies that are the new engine of world trade. Fears of destructive competition, relocation of production units to low-wage countries and more generally accelerated deindustrialisation are increasing.

Has Europe the means to hold on to its manufacturing industries under these circumstances? Or will it have to abandon its industrial base? For all the decline of manufacturing in total employment (so-called "deindustrialisation"), industry continues to play a key role in Europe's economy. It is therefore difficult to imagine Europe's economy becoming wholly tertiary, which is not to deny the increasing de-materialisation of industrial production: there is no longer any smoke coming out of the factory chimneys, but factories are still needed.

However, opening up the economy can contribute to the decline - though not the disappearance - of industry in a number of ways: specialisation according to comparative advantage, downward pressure on prices exerted by new competitors, the global reorganisation of firms, shifts in markets and therefore in the factories supplying them. These forces are magnified when trade flows are increasingly of a North-South nature.

Were greater exposure to competition from the South to lead to large-scale factory closures in Europe, the impact on European living standards could well be permanent and considerable. It is primarily in factories that the productivity gains which raise living standards occur, even if some service industries exhibit sizeable gains too, thanks to the use of ICT.

Of course, there is nothing new about the emergence of new competitors. However, the world economy is facing a new phenomenon: big open economies, where average living standards will remain consistently lower than in the old industrialised countries, are playing an increasingly important role in the world economy. Owing to significant internal inequalities and the high mobility of capital and technology at international level, these countries also enjoy comparative advantages in a wide range of goods.

All in all, two key factors will shape the future of the European industry. The first is its technological edge. Depending on whether trends continue at the rate observed since the mid-1990s or are reversed by a pro-active policy, Europe's technological positioning in one generation could differ completely owing to the speed of change. The second key issue concerns the South's institutions, which translates into a narrowing gap in living standards between the North and South.

If the new competitors catch up quickly, the medium-term development of international trade will basically be intra-industry and will keep European industry alive. In contrast, were the new competitors to drag their feet in raising wages (or adjusting their exchange rates), because they have a "reserve army" or because of the continued existence of undemocratic governments, then competition from the South, which has so far played only a limited role in European deindustrialisation, would prove far more destructive.

These two frames of reference – technology and institutions - are combined to produce scenarios, the consequences of which pose difficult policy challenges in terms of the nature of international trade, EU specialisation, labour market trends, as well as in incomes and inequality.

The full text of the study, along with an executive summary, are available in English and in French on both CEPII's and European Commission web sites.

Lionel Fontagné

## **Market Access in International Trade: The North-South Divide and Regional Agreements**

This research develops a method for assessing market access difficulties and applies it to trade patterns between developing and developed countries. We use a micro-founded gravity-type model of trade patterns to estimate the impact of national borders on revealed access to Northern markets for Southern producers. This is made possible by the construction and use of a new database extending the "Trade and Production" database recently issued by the World Bank (using primarily COMTRADE and UNIDO data) to cover more countries and years. The method also renews the assessment of the impact of regional trading arrangements (RTA) on market access within and between the two groups of countries. This border effect methodology is used to measure the impact of borders inside each RTA, and thus characterises the extent of integration of the zone, compared to trade taking place in the rest of the sample.

Other things being equal, a representative rich country imported on average 276 times more from itself, during the 1990s, than from a representative developing country, and 31 times more than it imported from another (representative) rich country. Results reveal that the difficulties faced by developing countries' exporters in accessing developed countries' consumers are also higher than vice-versa. Currently, the tariff equivalents of these border effects differ by around 30 percentage points. This asymmetry rises to 50 points when considering trade between rich countries and lower middle-income ones. These considerable difficulties in accessing Northern markets have however been reduced considerably since the mid-1970s. Another of our results concerns the impact of tariffs on market access. Tariffs continue to influence trade patterns, but our estimates suggest that they are particularly important in the difficulties of market access faced by Southern exporters in Northern markets.

We also show that the use of the border effect methodology and a theory-based empirical specification change the estimates related to the impact of regional agreements, bringing them more in line with our expectations than some results in the literature. The EU, CUSA/NAFTA, ASEAN/AFTA and MERCOSUR agreements all tend to reduce the estimated degree of market fragmentation within these zones, with an expected ranking between the respective impact of these agreements. Further research should concentrate on explaining estimated restrictions in market access and, in particular, on disentangling actual protection from differences in preferences by consumers in rich and poor countries. While we account for the relative prices of products in our specification, an additional improvement to our framework would be to deal more fully with the respective specialisation patterns of developing and developed countries, incorporating comparative advantage in the model.

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## *DATABASES*

### **Geographical and Distance Data**

The CEPII has built and made available two datasets providing useful data for empirical economic research including geographical elements and variables. A common use of these files is the estimation by trade economists of gravity equations describing bilateral patterns of trade flows. Other datasets have been proposed and provide geographical and distance data, notably those developed by Jon Haveman, Vernon Henderson and Andrew Rose. We try to improve upon the existing sets of variables in terms of geographical coverage, measurement

and the number of variables provided. Covariates such as bilateral distance, contiguity, or colonial historical links have also been used in other fields than international trade: for the study of bilateral flows of foreign direct investment for instance, but also by researchers interested in explaining migration patterns, international flows of tourists, of telephone traffic, etc. Even outside economics, several researchers in different social sciences use these types of variables. Political scientists, for instance, use distance and contiguity (among other determinants) to explain why some pairs of countries have a higher probability than others of going to war.

The first of these datasets incorporates geographical variables for 225 countries in the world, including the geographical coordinates of their capital cities, the languages spoken in the country under different definitions, a variable indicating whether the country is landlocked, etc. The second dataset is dyadic, in the sense that it includes variables valid for pairs of countries. Distance is the most common example of such a variable, and the file includes different measures of bilateral distances (in kilometers) available for most countries across the world (again 225 countries in the current version of the database).

The `geo_cepil.xls` file provides data on countries and their main city or agglomeration. Among the country-level variables are first 3 identification codes of the country according to the ISO classification, the country's area in square kilometres, used to calculate in particular its internal distance. Variables indicating whether the country is landlocked and which continent it is part of are also included.

There are several language variables that can be used to create different indexes of language proximity or dummy variables for common language in dyadic applications like gravity equations. The sources for all language information are the web site [www.ethnologue.org](http://www.ethnologue.org) and the CIA World Factbook. For each country, we report the official languages (up to three), as well as the languages spoken by at least 20% of the population and the languages spoken by between 9 and 20% of the population (up to four languages in each of those cases). Colonial linkage variables are also often used by economists to proxy for similarities in cultural, political or legal institutions. Our dataset provides several variables (based on the CIA World Factbook, and the correlates of war projects run by political scientists, available at [cow2.la.psu.edu](http://cow2.la.psu.edu)) that identify for each country, up to 4 long-term and up to 3 short-term colonisers in the whole history of the country.

Distance calculation requires information on geographical coordinates of at least one city in each of the country. The simplest measure of geodesic distance considers only the main city of the country, reported here with the English and French names, latitude and longitude. In most cases, the main city is the capital of the country. However, for 13 out of the 225 countries, we considered that the capital was not populated enough to represent the "economic center" of the country. For these countries, we propose the distances data calculated for both the capital city and the economic center. Consequently, there are 238 (225+13) observations in the `geo_cepil.xls` file. Also included is a variable providing the number of cities for each country available in the [www.world-gazetteer.com](http://www.world-gazetteer.com) dataset and used to calculate our weighted distances described in the next section.

The `dist_cepil.xls` file provides the bilateral data: the different distance measures and dummy variables indicating whether the two countries are contiguous, share a common language, have had a common coloniser after 1945, have ever had a colonial link, have had a colonial relationship after 1945, or are currently in a colonial relationship.

There are two common languages dummies, the first one based on the fact that two countries share a common official language, and the other set to one if a language is spoken by at least 9% of the population in both countries. Trying to give a precise definition of a colonial relationship is obviously a difficult task. Colonisation is here a fairly general term that we use to describe a relationship between two countries, independently of their level of development, in which one has governed the other over a long period of time and has contributed to the current state of its institutions.

There are two kinds of distance measures: simple distances, for which only one city is necessary to calculate international distances; and weighted distances, for which we need

data on the principal cities in each country. The simple distances are calculated following the great circle formula, which uses latitudes and longitudes of the most important city (in terms of population) or of its official capital. These two variables incorporate internal distances based on areas provided in the geo\_cepil.xls file. The two weighted distance measures use city-level data to assess the geographic distribution of population (in 2000) inside each nation. The idea is to calculate distance between two countries based on bilateral distances between the largest cities of those two countries, those inter-city distances being weighted by the share of the city in the overall country's population. This procedure can be used in a totally consistent way for both internal and international distances. We use latitudes, longitudes and population data of the main agglomerations of 215 countries from [www.world-gazetteer.com](http://www.world-gazetteer.com). The distance formula used is a generalized mean of city-to-city bilateral distances developed by Head and Mayer (2002), which takes the arithmetic mean and the harmonic means as special cases. We provide the two variables corresponding to those cases.

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## *EVENTS*

### **EcoMod 2004, International Conference on Policy Modeling**

Together with the ECOMOD network, the CEPII co-organised the International Conference on Policy Modelling in Paris, June 30 – July 2, 2004.

The goal of the conference was to promote the exchange of ideas among economists conducting quantitative analysis for policy and decision-making in the public and private sectors. The conference, which was hosted by the University Paris I Panthéon – Sorbonne, covered all areas of applied modelling for economics, finance and decision-making in the government and business world.

In his opening lecture, Hashem Pesaran (University of Cambridge) addressed the issue of Macroeconomic Dynamics and Credit Risk. Two plenary sessions addressed economic policy issues for which economic modelling has recently provided new insights. Lionel Fontagné (CEPII) chaired a session on agriculture and the Doha Development Round. Based on recent results of CGE modelling, the speakers, Jean-Christophe Bureau (INRA and CEPII, Paris), Aziz Elbehri (US Department of Agriculture) and Robert Koopman (US International Trade Commission), stressed that agriculture is the key to unlocking the WTO Doha Round. Katheline Schubert (University Paris I) invited Sherman Robinson (IFPRI), and Bernard Decaluwé (University of Laval) to address the issue of Modelling the labour market and poverty in developing countries.

More than 50 parallel sessions were devoted to regional modelling, forecasting methods, public economics, monetary issues, macroeconometric modelling, EU enlargement, trade, agriculture, labour markets, and developing countries. The complete programme of the some 170 papers selected by the Programme Committee chaired by Ali Bayar (Free University of Brussels) is available on-line.

Lionel Fontagné

### **The Future of the World Economy - What Place for EU Industries?**

After the recent enlargement of the European Union, and at a time when roughly 150 countries are discussing an ambitious Round of market opening in the WTO, with China, India and Brazil confirmed as key actors in international trade, the capacity of European industry to face new challenges and new directions in the International Division of Labour is crucial.

Within the context of the debate on deindustrialisation and industrial relocation, the

European Commission ordered a report from the CEPII (see Research Agenda section) on the prospects for European industry's insertion into the International Division of Labour. The conference, organised on July 15 by the European Commission, was centred on the presentation of the results of this study by Lionel Fontagné. The presentation was followed by two additional communications by Fabio Pammolli (University of Florence) on "The Role of Europe in the International Division of Innovative Labor: The Case of Pharmaceuticals and Biotechnology", and by Markus Taube (University Duisburg-Essen) on "The Future Place of European Industry in the International Division of Labour: The European Industry and the Chinese Challenge". A round table discussion concluded the conference, bringing together key figures in politics, business and trade unions.

In his introductory speech, Pascal Lamy (European Commissioner for Trade) stressed the political implications of the conclusions put forward by the CEPII study: *"From a political point of view, the scenarios developed by the CEPII are interesting because they draw out fundamental trends (the weight of the large emerging countries, the changing nature of the international division of labour) which cannot be ignored, but which do not imply singular tendencies. Future equilibria are therefore conditional. There are also a number of decisive variables and levels of action, in other words room for political manoeuvre. The response which the CEPII's work solicitation is both internal and external: a surge in technology and the maintenance of high quality production, but also the development of the EU's southern countries and the absence of institutional blockages. At stake is a global project, which calls on all European policies, and not only on industrial policy as defined narrowly. Trade policy, which is at the interface of Europe's development model and that of its trade partners, is clearly at the heart of the matter."*

Lionel Fontagné

## **The CEPII Business Club's Series of Meetings on the US Economy**

### **US positions in Multilateral Trade Negotiations**

This meeting of the CEPII Business Club (29 June 2004) was an opportunity to review US positions, both vis-à-vis Europe and the developing countries. There had been some previous doubts about US policy, given a series of unilateral measures by the current Administration (on Asia, on textiles etc.) which have led to worries about protectionism. However, the scrapping of steel tariffs and US willingness to settle the problem of Foreign Sales Corporations (FSC) have indicated a certain thawing of positions since the start of 2004.

Robert B. Koopman, Director of Economic Studies at the US International Trade Commission (USITC), the organisation responsible for advising Congress and the Administration, provided his view of the changing US positions concerning the negotiations in general. He also talked about agriculture, for which he is a specialist (having worked for 15 years in the US Department of Agriculture). Emmanuel Batallan, Head of the Market Access Bureau at the French Foreign Economic Relations Directorate, set out the French view of US policy in these areas.

### **The Renewed Strengths and the Weaknesses of the US Economy**

This first meeting (15 June 2004) of the CEPII Business Club's series of meetings on the US economy addressed its current and short-term economic performance. The participants discussed the future outlook for macroeconomic policy, and especially for public finances as well as the consequences of higher interest rates. They compared US and European views on the weakness of the US economy and on the consequences of US economic policy for the rest of the world.

The speakers included Laurent Degioanni (Economist at the Research and Strategy Department of CDC-IXIS Asset Management), Thomas Laubach (Economist with the Research and Statistics Department of the OECD and the Federal Reserve Board), Vladimir Borgy (Economist at the Forecasting and Economic Analysis Directorate of the French Ministry of Economy, Finance and Industry) and Olivier Garnier (Director of Strategy and Economic

## *WORKING PAPERS*

### **The Efficiency of Fiscal Policies: a Survey of the Literature**

No 2004-11 September

The efficiency of fiscal policy has been studied through the assessment of multipliers associated with discretionary measures and through the smoothing power of automatic stabilisers. In the first case, studies generally highlight the expansionary impact of large fiscal contractions, especially when government expenditures are cut or indirect rather than direct taxes are increased. In the second case, automatic stabilisers are found to be efficient in cushioning macroeconomic shocks but not enough to fully offset them. Discretionary actions may aid to the purpose of stabilisation .

Stéphane Capet

### **South – South Trade: Geography Matters**

No 2004-08 July

Intra-Sub-Saharan African trade appears to be very low, an outcome that is often justified on the grounds of the size of the exporting and the importing economies. If that were the explanation, there would be no untapped trade potential. We argue instead that the main determinant of this “missing trade” is geography. Being landlocked (and poor) translates into very high trade costs. In this paper, we try to measure the impact of geographical impediments on South-South trade, using an Armington-based model in order to evaluate the impact of geographical impediments on bilateral trade in the region.

Souleymane Coulibaly & Lionel Fontagné

### **Current Account Dynamics in New EU members: Sustainability and Policy Issues**

No 2004-07 July

The sustainability of current account deficits in the new EU members is assessed using different methods. Overall, the level of imbalances, although quite sizeable in some cases, do not seem to be a problem in the short to medium run. However, this conclusion depends heavily on the outlook for the inflows of foreign capital and on the pursuit of sound fiscal policies. Some implications for government savings and for exchange rate policies are derived.

Paolo Zanghieri

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## *RECENT PUBLICATIONS*

*ECONOMIE INTERNATIONALE*, QUARTERLY

### **No 98, 2nd Quarter 2004**

#### ***Information and Communication Technology: An International Perspective***

Edited by Gilbert Cette and Sébastien Jean

##### **Presentation**

Gilbert Cette & Sébastien Jean

##### **Measuring ICT diffusion in OECD countries**

Dirk Pilat, Nadim Ahmad & Paul Schreyer

## **TIC et productivité : une comparaison internationale**

Johanna Melka & Laurence Nayman

## **Le comportement de demande en capital TIC : Une analyse empirique sur quelques grands pays industrialisés**

Gilbert Cette, Jimmy Lopez & Pierre-Alexandre Noual

## **Economic Policy Forum: Information technologies and monetary policy**

### **New technologies, productivity and monetary policy**

Otmar Issing

### **Productivity growth, information technology and monetary policy**

David Bowman, Brian Madigan, Andrea De Michelis, Stephen D. Oliner, David L. Reifschneider & Daniel E. Sichel

### **Compte-rendu du séminaire « Écarts de productivité entre l'Europe et les États-Unis »**

## **No 97, 1st Quarter 2004**

### **Le déclenchement des crises de change : qu'avons-nous appris depuis dix ans ?**

André Cartapanis

### **La PPA est-elle vérifiée pour les pays développés et en développement ? Un ré-examen par l'économétrie des panels non-stationnaires**

Imed Drine & Christophe Rault

### **Taux de change réel d'équilibre et politique de change au Maroc : une approche non paramétrique**

Jamal Bouoiyour, Velayoudom Marimoutou & Serge Rey

### **L'Union européenne élargie et ses voisins méditerranéens : les perspectives d'intégration**

Sébastien Dupuch, El Mouhoub Mouhoud & Fatiha Talahite

### **Localisation géographique, commerce international et diffusion des connaissances technologiques**

Sami Rezgui

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Publisher: La Documentation Française, price: €18.50 per issue, €65.50 annual subscription in Europe and €68.50 outside Europe.

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*LA LETTRE DU CEPII* , MONTHLY

## **The Enlargement of Monetary Union and the Outlook for the Eurosystem**

No 235, June 2004

The Eurosystem is made up of the European Central Bank and the national central banks of countries in the euro area. It presently functions in a decentralised manner, which is borne out both in the decision-making process, the way in which monetary policy is set and in banking supervision. As the euro area enlarges to include the new members of the European Union, the functioning of the Eurosystem could move towards greater centralisation and converge, at least in appearance, with that of the US Federal Reserve. Such changes in the working of the Eurosystem could however influence the balance between the major financial markets in the euro area.

Jean-Pierre Patat

## **Speculating on the Yuan**

No 234, May 2004

Real and financial imbalances are currently building up in China. They are linked to major capital inflows that have only been partly sterilised by the central bank. Contrary to conventional wisdom, these inflows stem not just from current account operations or FDI. Apart from illegal foreign currency inflows, there is another channel which makes the financial account more permeable to capital inflows than is usually thought. Under these circumstances, a rise in Chinese interest rates aimed at reducing credit growth risks fuelling forex inflows. Higher interest rates would therefore not seem to be compatible with maintaining a fixed exchange rate. In the wake of the expected rise of US rates in 2004, international financial conditions will provide a window of opportunity that could permit scrapping China's currency peg, with only limited risks of the forex markets over-reacting.

Bronka Rzepkowski

## **The Narrow Road to EMU Enlargement**

No 233, April 2004

The accession of ten new members to the European Union on the 1 May 2004 is not the end of the enlargement process: joining the euro area will be the next step for these countries. To do this, they will have to fulfil the criteria set out in the Maastricht Treaty, in particular the membership of the ERM II for at least two years. This requirement, however, leads to uncertainties, as economic convergence is not consistent with exchange rate stability for all countries. The success of ERM membership will also depend on the central parities chosen, the sustainability of current account financing and on containing the uncertainties which could affect the stability of expectations. Monetary enlargement may therefore be very progressive, concerning the "small countries" first, which presently have fixed exchange rates, and only later affecting the "large" new Member States.

Amina Lahrèche-Revil

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<http://www.cepii.fr/anglaisgraph/news/accueilengl.htm>

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## ***BOOKS***

### **L'Économie mondiale 2005**

Edited by Isabelle Bensedoun & Agnès Chevallier

Repères, La Découverte, 2004

#### **L'état de l'économie mondiale**

##### **A nouveau sur les rails**

Agnès Chevallier

##### **États-Unis, Europe, Japon**

Cyrille Lacu, Florence Pisani & Philippe Weber

##### **Amérique latine, Asie, Afrique**

Loïc Cadiou & Agnès Chevallier

##### **Russie, PECO, Méditerranée, Turquie**

Jean-Raphaël Chaponnière, Irina Topa & Yves Zlotowski

#### **Les dossiers stratégiques**

L'élargissement, et après ?

Amina Lahrèche-Revil

L'économie indienne en bonne voie

Sophie Chauvin & Françoise Lemoine

La libéralisation agricole : des effets ambigus sur les pays en développement  
Antoine Bouët, Jean-Christophe Bureau, Yvan Decreux & Sébastien Jean

**Le point sur**  
**L'imbroglia des inégalités**  
Isabelle Bensidoun

**Base de données sur l'économie mondiale**  
Colette Herzog

**Chronologie de l'économie mondiale**  
Julie Lochard

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## *NEWS IN BRIEF*

Christian Stoffaes, Director of Forecasting and International Relations at EDF, was appointed as Chairman of the CEPII Board, on 21 July 2004. He replaces Michel Camdessus, who has held the post since 2000.

Alfred Tovias, Walter Rathenau Professor in European Economics and Jean Monnet Chair Holder at the Department of International Relations at the Hebrew University of Jerusalem, has joined the CEPII as a Visiting Researcher, for a few months. He will work on the trade policies of Mediterranean countries, which form part of the International Trade Models and Databases scientific programme, directed by Sébastien Jean.

Bernard Decaluwé, Professor at the University of Laval, Quebec, has joined the CEPII as a Visiting Researcher. He will work on the impact of trade policies on poor countries.

Valérie Mignon, Professor of Economics and the University of Paris X Nanterre, has become a Scientific Advisor to the CEPII for econometric issues in macroeconomics.

Paolo Zanghieri, Stéphane Capet, Bronka Rzepkowski and Catherine Bac have left the CEPII to pursue their careers in other research organisations and international institutions.

Cyrille Lacu and Isabelle Rabaud have ended their long collaboration with the CEPII in order to focus exclusively on their university work.

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## *FORTHCOMING*

### **Economic Conditions and the Financial Markets**

7 October 2004

Meeting organised by the CEPII Business Club

### **The Economic Challenges and Outlook of the US Elections**

21 October 2004

Conference organised by the CEPII, the CIREM and Groupama Asset Management

### **Second Annual Conference of the Euro-Latin Study Network on Integration and Trade**

29-30 October 2004

Network coordinated by the CREI, the CEPII, the Kiel Institute for World Economics, and the

RSCAS

**The US Financial Industry**

9 November 2004

Meeting organised by the CEPII Business Club

**Vth Doctoral Meetings in International Trade and International Finance**

18-19 November 2004

Meeting organised by the network Research in International Economics and Finance – RIEF

**Science Policy**

23 November 2004

Meeting organised by the CEPII Business Club

**The New Frontiers of European Union**

16-17 March 2005

Conference organized by the CDC Institute for Economic Research, the Caisse des Dépôts et Consignations, the CEFI, the CEPII and the *Revue Economique*

Papers to be submitted before 15 November 2004

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BARTOLOZZI  
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Subscription manager: SYLVIE HURION  
Address: CEPII - 9, rue Georges Pitard - 75015 Paris -  
France  
Tel. (33) 1 53 68 55 00 - Fax: (33) 1 53 68 55 03  
<http://www.cepii.fr/anglaisgraph/news/accueilengl.htm>

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