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FOCUS

Issues in International Governance

International governance has long been a matter for States to deal with. Typically, sovereign actors establish their own domestic laws and institutions, and then enter into international agreements. The international order that emerged after World War II was the most coherent and comprehensive illustration of this model.

States are now being overwhelmed by market forces and the micro-foundations of this fluid order are only poorly or partially known. This raises an elementary problem of regulation. Private conflicts may of course be settled bilaterally, in an amicable way. But if this fails, as often happens, the next step is to call for the intervention of a neutral third-party, the most remarkable one being international private arbitration. When two large companies cannot settle a dispute, they basically each choose an arbiter who will agree on a third one. The parties will then proceed with hearings, etc. In principle, the "award" then produced is binding on the parties. If there is a dispute either on the argument or the procedure, the parties shift to a public, official tribunal, that will act as a court of appeal or will confirm the arbiters' decision. Then the court brings to bear its own guarantees of execution – i.e. those of the sovereign state under which the discrete umbrella arbitration took place. This highly efficient and largely unknown institution plays a major role today in the regulation of globalised markets. At first sight, it operates as a purely global institution, in which the parties choose both the law and the judges they prefer; but the strength of the sovereign is still there, as a distant though decisive enforcer. Hence it may be asked whether this is a model with a possible, much larger future. Is it possible to imagine a globalised world in which regulation could be based much more consistently on such a mechanism?

At least two alternative institutions should in fact be brought into the picture, which will not actually be superseded, as far as can be foreseen. One is, again, the sovereign States, which may for instance contest arbitration and oppose its sentences – as some developing countries sometimes do. An alternative case arises when private actors – say American multinationals – opt for, and impose on their partners their own law and domestic jurisdiction (the New York court, for instance). *De facto*, there is today clear competition between US law and courts on the one hand, and international arbitration on the other, as a more transnational principle of governance.

On the macroeconomic side, the most striking feature is the scrapping of the so-called Washington Consensus. In addition, drawing on the lessons of the Asian and Russian crises, emerging market countries have massively rejected foreign indebtedness denominated in dollars. They have become surplus countries and they have accumulated foreign exchange reserves. They have been busy repaying their debts and they have been keen not to depend on the IMF any longer. It follows that the function of the IMF as the watchdog of the solvency of sovereign debts and as the provider of guidance for "correct" economic policies of debtor countries has nearly disappeared. The attempts to reform IMF's status have failed both in granting it a lender-of-last-resort role and in adopting the sovereign debt restructuring mechanism. The latter is no longer timely with the change in the international financial position of emerging market countries. Because of the oncoming structural changes in the global economy, the IMF needs a complete overhaul that acknowledges the final demise of the Bretton Woods order.

Multilateral institutions are now relatively weakened. However, the emergence of better-quality, international public goods still depends upon them, and upon the willingness of their members to cooperate. National sovereignties and private self-regulation are strong principles affecting collective action, and they do a lot to support the day-to-day operations of globalised markets. But they certainly will not solve the most pressing issues of the time – development, public health and global warming for instance. A fair guess is that the performance of international governance in the years to come will very much depend upon the division of labour that will emerge between these three principles – private self-regulation, sovereign action, and multilateralism.

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ON THE RESEARCH AGENDA

Europe's Specialisation and Trade Performance

During the last few years, world trade has been marked by the emergence of new partners from the South. Developing countries have recorded remarkable gains in global market share, and have affirmed themselves not just as suppliers of the North but also as rapidly expanding import markets. Faced with the enhanced competitiveness of developing countries' products, industrialised economies have experienced increasing difficulties in preserving their market shares. The present study analyses the positioning of the EU and its Member States in the extra-EU market over the 1995-2003 period, by paying close attention to the geographical and the sectoral specialisation of European exports. Methodologically, it relies on an analysis of market shares and comparative advantages. The use of a highly detailed database permits performances in specific segments of the world market to be studied.

Gains or losses in world market share of individual countries are often considered as an index of their trade competitiveness. However, an inherited specialisation in leading export sectors and goods-positioning in the most dynamic markets may generate additional market share without any effort on behalf of the exporting country itself. We employ a transformed, shift-share methodology to separate the effect of the sectoral and geographical structure of exports from the export performance effect, reflecting countries' capacity to respond to changes in global demand and to improve the competitiveness of their products.

The overall EU market share was eroded during the last years, due to the poor performance of its largest members (with the exception of Germany) and despite the favourable sectoral breakdown of its

exports. Still, results vary considerably across different markets. Thus, European countries displayed a much better performance in up-market segments, characterised by prices situated above the world average. During the period considered, the EU reinforced or acquired leadership in up-market products, in many industries, ranging from leather and clothing to machinery and automobiles. Meanwhile, it suffered important market share losses in the high-technology sector. Moreover, the contribution to the trade balance indicator reveals that the EU, contrary to US and Japan, is no longer specialised in this sector. This outcome results from the large and deepening disadvantage of EU countries in down-market products, such as computer devices. Still, the EU has maintained its comparative advantage in up-market, high-technology products.

Angela Cheptea, Guillaume Gaulier & Soledad Zignago

Foreign Direct Investments in China: Reward or Remedy?

From being an economy with virtually no foreign investment in the late 1970s, China has become the largest recipient of FDI among the developing countries and, for many years, has been the second largest FDI recipient in the world behind the United States. FDI inflows literally exploded from \$5.9 billion to \$115 billion between 1985 and 2003. Economists usually agree that FDI brings to emerging countries new technological and managerial expertise, and numerous studies have documented the positive impact of FDI on GDP.

Despite the obvious benefits of FDI, Huang (2003) argues that the high share of FDI in China may be the consequence of distortions in the Chinese financial market that discriminates against private companies. Indeed, a major problem in China's corporate sector is a political pecking order of firms that allocates China's financial resources to the least efficient firms (state-owned enterprises) while denying the same resources to China's most efficient firms (private companies). Such distortions may force Chinese private firms to look for a foreign investor. In this case, the benefits of foreign investment are not associated with technology transfer or managerial skills, but are purely due to "foreign ownership", which makes the life of the Chinese firm easier. Therefore, if there were a level playing field for companies of all types of ownership in China, the scale of FDI would be smaller. In this context we can talk about the economic costs of FDI, namely forgone revenues by Chinese private companies, and more generally, about the misallocation of funds in the world economy.

We propose to analyze determinants of FDI to 26 Chinese provinces and 3 municipalities between 1990 and 2003, with the idea of testing Huang's (2003) hypothesis. Our work contributes to the FDI literature by including determinants that capture the distortions and inefficiencies of economic policies and institutions across Chinese provinces, namely a proxy for the lack of progress in economic reforms and a proxy for persisting discrimination in the financial system.

Olena Havrylchyk & Sandra Poncet

Huang, Y., *Selling China: Foreign Direct Investment During the Reform Era*, New York, Cambridge University Press, 2003.

China's Emergence and the Reorganisation of Trade Flows in Asia

The aim of this research is to examine how the emergence of China as a global manufacturing base has affected the other Asian countries' trade specialisation and regional integration, in recent years (1989-2003).

The research aims at answering the following questions: Has China become an engine of trade and economic growth in the region? How has the position of advanced Asian economies evolved, in the division of labour in Asia? Has China's trade expansion been achieved at the expense of other emerging economies in South-East Asia?

The CEPII database on international trade (BACI) is used to provide an original analysis of trade flows which shows the composition of flows by stage of production, the position of the different exporters in price-quality range, the evolution of their terms of trade, and their technological upgrading.

This detailed analysis of trade flows shows that the rise of China has accelerated the international segmentation of production processes within the region but has not (yet?) created an autonomous engine for regional economic growth, which still depends on outside markets for its final goods exports. The positions of the advanced economies (US and Japan) in Asian trade have been considerably weakened, as a result of the regionalisation processes and of the move of large volumes of production to low cost sites. The reorganisation of production has thus weakened trade between the advanced economies (Japan, and

the first tier of the newly industrialised economies) but up to now has not severely affected the position of emerging Asian economies (Malaysia, Philippines, Thailand) in international trade. However, the surge of China's exports, accompanied by the continuous decline of its export prices, suggests there are risks of a downward spiral of cost competition, as China's prices exert downward pressure on international prices of manufactured products. The question of the sustainability of China's recent growth strategy is raised, as the strategy has led to a sharp deterioration of its terms of trade and to the multiplication of trade disputes.

Guillaume Gaulier, Françoise Lemoine & Deniz Ünal-Kesenci

The Border Effects of Brazilian States

Brazil manifests strong regional inequalities opposing the rich and developed states of the South with the very poor ones of the North. These regional disparities, which are at the origin of strong domestic migration flows, push Brazilian governments to pursue development policies in order to integrate marginalised areas. Thus, the process of opening up to international trade probably does not affect all Brazilian states in the same way. Our work proposes to carry out the first measure of the degree of international and domestic trade integration of Brazilian states using the border effects methodology, which compares the external trade of a country, or a sub-division of one country as is the case here, to internal trade, which is assumed to be perfectly free.

The literature on internal border effects relates to only a few, mostly developed countries, because of the scarcity of intra-national trade data, and underlines a rather large fragmentation of national economies. For instance, Sandra Poncet (2003) finds a strong fragmentation of the Chinese domestic economy and highlights an ongoing process of domestic disintegration between 1987 and 1997, which has caused domestic political problems.

Our dataset includes domestic trade flows between the 26 Brazilian states and international trade flows between each state and 164 foreign countries, for 1991, 1997, 1998 and 1999. The trade data between Brazilian states comes from information about the ICMS, which is the tax applied to inter-state trade. The international trade data of Brazilian states is provided by the Foreign Trade Secretariat of the Brazilian Ministry of Development.

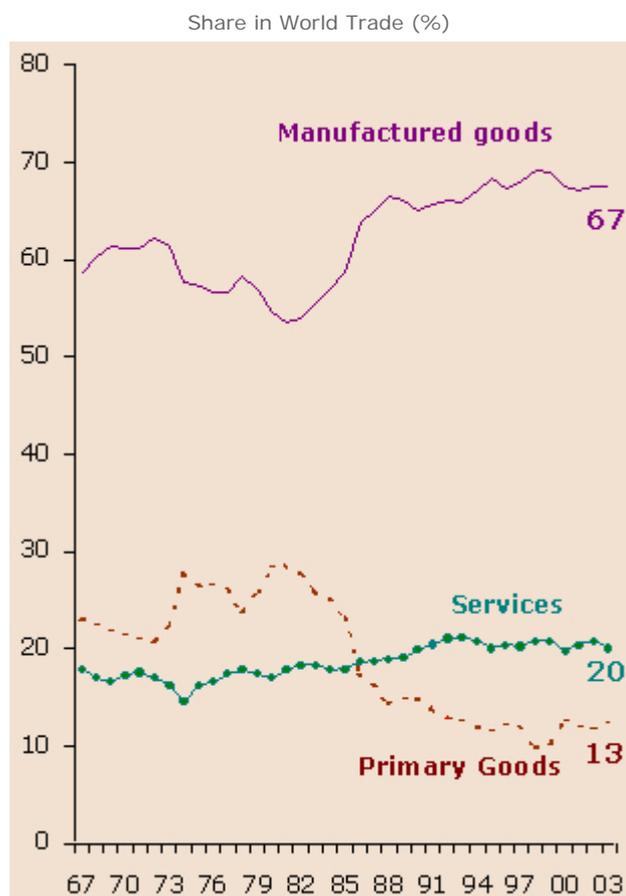
First results show that, in 1999, a Brazilian state traded 11 times more with itself than with another representative Brazilian state, after controlling for economic size, distance, etc., while the figure was 19 times in 1991. The Brazilian market seems then to be more fragmented than developed markets, but less so than the Chinese market. The calculation of border effects *per* Brazilian state emphasises that integration into domestic and international trade is higher for Southern States than for Northern and Amazonian States, reflecting the Brazil's current regional heterogeneity.

Marie Daumal (Université Paris-Dauphine) & Soledad Zignago

DATABASES

Services in CHELEM

No sector generates wealth like the tertiary sector: services account for an average 70% of employment and value-added production in the developed countries, and play a major role in activity. But the international trade in services has represented no more than about a fifth of trade over the last three decades. This is due mainly to their "non-tradable" nature. Nevertheless, the international market for services is undergoing profound change with the development of new products to meet new needs: trade in financial products, licences, patents, IT consulting, telecommunications and advertising products. These new services are based on highly-skilled labour, and are closely linked to industrial activity, and they have experienced very strong global trade growth over the last decade.



Principal Items

	Growth rate (annual average, %)	Share in services (%)
	1995-2003	2003
Primary goods	6	
Manufactured goods	5	
Total services	5	100
Transportation	3	23
Travel	3	27
Other services	7	49
<i>of which</i>		
Computer & information	23	3
Insurance	10	4
Financial services	10	4
Cultural services	9	1
Royalties and licence fees	8	5
Communications services	6	2
Other business services	6	23
Government services	3	4
Construction services	1	2

Source: CEPII, CHELEM-IT-BOP.

Service trade, however, remains little studied by economic analysis, be it theoretically or empirically. Such a lack of research is all the more glaring as services are one of the key issues at stake in the multilateral trade negotiations, of the Doha Round, launched in 2001. The lack of reliable statistical data is the main obstacle to empirical research. In contrast to trade in goods which is recorded according to international classifications by customs authorities, the recording of service-sector trade is largely based on surveys made of service producers, using criteria that vary greatly from one country to another.

From this point of view, the CHELEM-BOP database is very valuable for empirical analysis, and the database was completely overhauled in 2005, on the basis of the IMF's Balance of Payments Statistics. It contains data for 184 countries, which may be grouped together into 96, 82 and 34 zones, according to the common classification scheme of the CHELEM.¹ The database uses the 5th classification of the IMF *Balance of Payments Manual*, and the most detailed level for services (31 headings), offering a hierarchical and convivial presentation. A specific advantage of CHELEM-BOP is that data is consistent for service sector aggregates and their components. The database covers the period from 1967 to 2003, for the major aggregates, and the period of 1995-2003 for the more detailed headings.

Houssein Boumellassa & Deniz Ünal-Kesenci

1) CHELEM-BOP (Balance of Payments), CHELEM-IT (International Trade in Goods) and CHELEM-GDP (GDP, Population, Exchange Rates).

Cf. BOUMELLASSA, H. & UNAL-KESENCI, D. *Base de données CHELEM-BAL du CEPII, CEPII WORKING PAPER N°2006-08*, March 2006.

More or Less Ambition: Modeling the Development Impact of US-EU Agricultural Proposals in the Doha Round

1 February 2006

The scientific grouping "Trade policy" (GIS "Politique commerciale"), formed jointly by the CEPII, the INRA (French National Institute for Agronomic Research) and the French Ministry of Finance held one of its regular seminars on the impact of an agreement on developing countries, whose economies depend heavily on agriculture. Guest speakers from the International Food Policy Research Institute gave a presentation on this subject. Using the MIRAGE computable general equilibrium model of the global economy, they compared different scenarios for the Doha agriculture negotiations, taking real numbers from the proposals currently on the table from the European Union (EU), the United States, and the G20 group of developing countries. The first scenario models a cooperative reform outcome, combining the most ambitious components of the US and EU negotiating proposals. This scenario includes trade reform in least developed countries (LDCs) and development commitments, such as the extension to LDCs of full, freemarket access to the OECD. The second scenario models a less ambitious outcome, adopting the lower-end elements of the two proposals. A cooperative reform outcome by the United States and the EU, based on the most ambitious components of their negotiating proposals, delivers noticeably more benefits.

Ageing and Employment Policies for Seniors, in Japan

8 December 2005

As part of its regular meetings, the Forum of Franco-Japanese Economists examined the economic consequences of demographic ageing in Japan. The baby boom between 1947 and 1949 was followed by a dramatic fall in births for five years. Thereafter, the fertility rate stabilised at nearly two children per woman, until the mid-1970s, when a progressive decline set in. Yet the rate of unemployment in the 45 to 60 year-old age group is clearly below the national average. Furthermore, the decision made in 1998 to push back progressively public pension pay-outs from 60 to 65, raises problems of continued activity by this age group in the future, while the pensionable of 60 is still applied in 90% of all companies. The specificities of Japan's ageing, the present labour market situation and employment policies for seniors were the main issues to be discussed.

The Future of Stock Markets

27 October 2005

Interest in this subject is stimulated by the uncertainty surrounding markets for shares. Both their role in the rise of the New Economy and the economic impact of their subsequent market collapse in 2001 and 2002 are known. In spite of dynamic productivity and the return to healthy growth in the United States, and despite very low long term interest rates, given the apparent dynamism of the economy, share prices have been consistently under-performing, compared to the preceding decade. This seminar, organised by Groupama, the CEPII and the CIREM, set out to examine the reasons and consequences of such behaviour. The participants also looked at the impact of globalisation on stock market interdependence. In addition it was asked what the consequences for western markets will be of the shift in global growth to Asia. Is the European integration of markets progressing despite the problems stock markets have had in trying to group together? The consequences for market agents, regulators and central banks were also highlighted. What will be the likely behaviour of investors who manage large share portfolios? What is happening to the regulation and supervision by "gatekeepers", who are meant to support market efficiencies? The economic impact of stock levels and more generally the price of assets has much concerned monetary authorities since 2001. But such concerns have remained informal. Is it possible to be more systematic about taking into account the financial environment?

The CEPII Business Club's Meetings

The series of meetings on China:

China and Its Borders: The Scope of Chinese Power

12 January 2006

The economic emergence of China has major consequences for its political influence in the region. What are China's regional objectives? Will it become Asia's leader? What are the motivations, trends and approaches of Chinese policy? Drawing on his recent book, Jean-Pierre Cabestan (Research Director at the CNRS) analysed the confrontation between China and Taiwan, and how China views its place in the world today. Based on his expertise, he

analysed relations between China and Taiwan, in the light of China's reunification policy and its foreign and security policies. François Godement (Head of the Department of Advanced International Studies at INALCO) analysed the reactions which China's motivations and policies solicit in North East Asia (Korea, Japan and Taiwan) and in South-East Asia.

The Productivity of Industrial Companies in China and the Rise of the Private Sector



7 December 2005

The OECD has dedicated an "Economic Survey" to China, for the first time. Among the major issues that are linked directly to the surge of the Chinese economy (the growth outlook, trends in the financial system, exchange rate policy), the Survey highlights especially the changes in the production system, which have been at the heart of China's economic performance over the last five years. Apart from foreign firms, private companies have been the motor for growth and they henceforth dominate the competitive sectors. They are achieving rapid productivity growth and increasing profitability. State-owned enterprises are in retreat, and the performance gap between them and the private sector is increasing. The study uses data covering all identified industrial companies, and provides quite a precise image of the present state and dynamic change of China's productive industries. Sean Dougherty, one of the organisers of the Survey, presented the results for companies and the economic policy conclusions that are drawn from it. Françoise Lemoine and Rémy Lecat commented the presentation, giving their views on the mutations of China's productive system and the rise of the private sector.

Production (Re)location and Environmental Policies



2 February 2006

The fear that integration between countries with varying levels of environmental requirements may lead to the relocation of polluting production to the South has led to two types of worries in the public debate. First is the fear of environmental dumping: the race-to-the-bottom in terms of respect for the environment is one of the various forms whereby locational competition is often judged as unfair and based on different production costs. Second, the simple North to South relocation of polluting activities is likely to have little impact on global pollution and justifies activism by environmentalists. An assessment of the empirical reality of "polluter haven" behaviour by multinational companies is vital and the meeting presented recent results in this field. An associated question concerns the link between environmental protection and goods trade. Do higher environmental requirements have a notable impact on trade? If so, it is highly likely that governmental authorities will seek to manipulate requirement levels, in order to give themselves a new trade policy instrument, within the present context of trade liberalisation. Lionel Fontagné, Thierry Mayer (CEPII) and Nicolas Riedinger (Ministry for Ecology and Sustainable Development) introduced the discussion on these issues.

The Indian Economy in 2006: The Budget and Growth Constraints



17 November 2005

India's recent macroeconomic results show that its growth is less and less dependent on erratic weather conditions affecting agriculture. If these results persist in 2006, then they will confirm that a new threshold of 7.5% to 8% growth has been crossed. Such growth would allow India to enlarge its fiscal room for manoeuvre and accelerate a certain number of reforms vital to its future, notably relating to urban and rural infrastructure, as well as to education. Saumitra Chaudhuri, a Member of the Economic Advisory Council to the Prime Minister of India, presented the main trends expected for the economy in 2006, while analysing its principle structural problems stemming from its drive to modernisation. These include, in particular, the reduction of its foreign deficit, reform of the State and the pursuit of greater openness for foreign investment, fiscal reform (given changes in tax relations between the provinces and New Dehli), and progress in the privatisation programme.

Is Africa At Last on the Right Road?



15 November 2005

The concerns by the major industrialised countries for development in Africa did not begin with the G8 summit in 2005. The New Partnership for Africa's Development (NEPAD) is a unique experiment which has now been underway for a number of years, bringing together African countries and all OECD countries. Despite the inertia, delays and insufficiencies which this initiative has revealed, a political willingness is clearly emerging as awareness is growing concerning the

collective responsibility for resolving this world systemic problem. The decisions adopted at Gleneagles are pointing in the right direction: a doubling of public development aid; efforts by the major powers to eliminate support for agricultural production and exports. But the NEPAD is seeking to go further, as the African problem is not merely a question of money: promoting peace, security, democracy and good governance are preconditions for the continent's development. They are essential to effective spending and the rise of private investment (both domestic and foreign), whose impact is at least as important strategically as public funding. After an introduction by Jean-Pierre Patat (CEPII), Michel Camdessus (Personal Advisor to the President Chirac for NEPAD) examined progress made in terms of public development aid, trade agreements and debt refinancing. Lastly, Gilles Dufrénot (of the West African Economic and Monetary Union, WAEMU) set out an assessment of progress made by NEPAD in the WAEMU.

WORKING PAPERS

Who Pays China's Bank Restructuring Bill?

No 2006-04 February

This paper addresses the questions related to the cost of China's bank restructuring and how it has been financed. It first proposes a framework for recognising losses. Then, the paper examines the recent major moves by the Chinese government to repair the country's bank balance sheets. Finally, it explores the implications of the Chinese ways of funding bank restructuring. It finds that the Chinese government has been decisive in confronting the costly task of bank restructuring. Looking through the elaborate funding arrangements adopted so far, the Chinese taxpayers have paid most of the bill.

Guonan Ma

Structural Determinants of the Exchange-Rate Pass-Through

No 2006-03 February

Recent papers have tried to explain incomplete pass-through observed at the aggregate level by various types of microeconomic behavior. This paper assesses some of these explanations, using product-level estimates of pricing-to-market coefficients obtained from a new database of bilateral international trade, that covers more than 5,000 products and 130 countries. Half of the industries are found to exhibit pricing-to-market, but the magnitude of the pass-through is shown to vary widely across sectors, even at the most detailed level. Pricing-to-market is then shown to be higher in markets where arbitrage is made easier by the existence of referenced prices, and for final consumption goods. Moreover, competitive pressures faced by exporting firms are shown to affect pass-through decisions as well: firms tend to price to their destination market less, the larger their market share in the destination market, and the smaller or more concentrated are.

Guillaume Gaulier, Amina Lahrèche-Révil & Isabelle Méjean

Exchange-Rate Pass-Trough at the Product Level

No 2006-02 February

This paper uses a detailed database to investigate exchange-rate pass-through at the product level, for a large number of countries. Since the database provides harmonized trade flows, pass-through in both export and import prices can be investigated consistently. The empirical analysis suggests that pricing behaviours are dichotomic: while pass-through is complete in 30 to 40% of sectors, there is significant pricing-to-market in the remaining ones. The average long-run pass-through coefficient is nevertheless quite high, close to 80%. This result however hides a strong heterogeneity of pass-through behavior across sectors and exporting countries, and to a lesser extent across importers. Trying to disentangle composition effects from structural factors, the analysis suggests that a large part of cross-country differences is attributable to composition effects. Still, the pass-through is on average higher i) in volatile environments, ii) in less developed countries, iii) in little integrated markets.

Guillaume Gaulier, Amina Lahrèche-Révil & Isabelle Méjean

***Je t'aime, moi non plus* : Bilateral Opinions and International Trade**

No 2006-01 January

This paper studies the relationship between bilateral trade patterns and opinions. It uses the Eurobarometer public opinion surveys published by the European Commission, which provide data on the share of the population in each EU member country in favor of each CEEC joining the EU. Our results first suggest that bilateral opinions have a statistically robust and relatively large effect on imports, even when standard and new covariates capturing proximity between countries are controlled for. We interpret this effect as reflecting a positive impact of "bilateral affinity" on trade patterns. We also show that it is possible to go some way towards explaining the variance in bilateral opinions among our sample. Last, we provide some preliminary attempt to determine causality between bilateral opinions and imports.

Anne-Célia Disdier & Thierry Mayer

World Trade Competitiveness: A Disaggregated View Using Shift-Share Analysis

No 2005-23 December

We develop an improved shift-share methodology and employ it to estimate the trade competitiveness of 88 world countries during the 1995-2002 period and to identify factors that drove each country's increase or decrease in export market share. Along with the export competitiveness, we consider the geographical and sectoral dimension of countries' initial position on different import markets and of their capacity to adapt to shifts in the world economy. In contrast to the traditional method employed in the literature, our procedure yields identical results regardless of the order in which trade is decomposed in geographical and sectoral factors. Moreover, it produces standard errors and permits the statistical significance of each effect to be evaluated.

Angela Cheptea, Guillaume Gaulier & Soledad Zignago

Profitability of Foreign and Domestic Banks in Central and Eastern Europe: Does the Mode of the Entry Matter?

No 2005-21 December

Using data for 265 banks in Central and Eastern European Countries for the period of 1995-2003, this paper analyses the differences in profitability between domestic and foreign banks. We show that foreign banks, especially greenfield institutions, earn higher profits than domestic banks. However, this effect is acquired, rather than inherited, since there is evidence that foreign banks tend to take over less profitable institutions. Profits of foreign banks in the CEECs also exceed profits of their parent banks, explaining the reasons for their entry. Furthermore, we study the costs and benefits of foreign ownership by analyzing determinants of profitability for domestic, takeover, and greenfield banks. Profits of foreign banks are less affected by macroeconomic conditions in their host countries. However, greenfield banks are sensitive to the situation of their parent banks.

Olena Havrylchuk & Emilia Jurzyk

ECB Governance in an Enlarged Eurozone

No 2005-20 December

In this paper, we provide an assessment of the rotation rule decided by the European Council, for the functioning of the ECB Governing Council after EMU enlargement. Desired interest rates by each member of the Governing council are calculated on the basis of the Fisher, truncated Taylor and the Taylor rules successively, and on the basis of a convergence of both GDP per capita and price levels within the EU, in 30 years. Then, various decision rules are simulated. We show that moving from the "old" rule (where each member of the Governing Council has a vote at each meeting) to the "new" one (at a given meeting, only 15 national governors have a vote) does not have much impact on the decisions made by the Governing Council in an enlarged Eurozone. However, should rotations be relatively infrequent, the system could end up close to a constituency system. In this case, core Euro12 countries could be better off in a Euro25 than in the Euro12, because they would be in the position of imposing lower interest rates. However, core Euro12 would be worse off in a Euro22 compared to a Euro12 because, high inflation countries would be able to impose higher interest rates. On the whole, in a Euro25, the (fast) rotation system which was decided by the European Council appears acceptable by all Euro members because it is never the worst system. However, full centralisation (where the choice of the interest rate is left to the Executive board) would deliver the same results, with much lower transaction costs.

Agnès Bénassy-Quéré & Edouard Turkisch

What Are EU Trade Preferences Worth for Sub-Saharan Africa and Other Developing Countries?

No 2005-19 December

This study shows that EU preferences to developing countries were fairly well utilised in 2001, especially in sub-Saharan Africa. For several sub-Saharan African countries, the value of EU tariff preferences, even without accounting for tariff rate quota rents, is worth a significant proportion of their world exports. For non-African Least Developed Countries, in contrast, we find that the EBA initiative was approximately only half-utilised, although it is the only preferential regime available to most of them. It is difficult to reach a firm conclusion since 2001 was the first year of the enforcement of the Everything But Arms (EBA) initiative, and figures for 2002 show that utilisation was on the rise. However rules of origin appear to limit significantly the value of this scheme. This also likely explains why the Generalised System of Preferences (GSP) is significantly under-utilised in the manufacturing sector, even when the receiving country is not eligible for any other preferential regime.

Fabien Candau & Sébastien Jean

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RECENT PUBLICATIONS

ECONOMIE INTERNATIONALE, QUARTERLY

No 103, 3rd Quarter 2005

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BOOKS

Agricultural Trade Reform & the Doha Development Agenda

Edited by Kym Anderson and Will Martin

Publisher: World Bank and Palgrave Macmillan, 2005

This study builds on numerous recent analyses of the Doha Development Agenda and agricultural trade, including five very helpful books that appeared in 2004. All of these studies were completed well

before Doha Round negotiators reached the July Framework Agreement in the early hours of August 1, 2004. Hence what distinguishes the current volume from others is that its *ex ante* analysis focuses on the core aspects of the July Framework Agreement from the viewpoint of agriculture and developing countries but also takes account of what might happen to non-agricultural market access and the other negotiating areas. Furthermore, the analysis does so in an integrated way by using the new GTAP Version 6.05 database, which we have amended to include bound tariffs and to account for key protection changes agreed to before 2005 and related global economy-wide models. This volume is the result of an intense programme of integrated research undertaken during the latter half of 2004 and early 2005 by a complementary set of well-informed scholars from four continents. Antoine Bouët, Lionel Fontagné, Sébastien Jean & David Laborde are among the authors.

NEWS IN BRIEF

André Lemelin, Professor of Economics at the INRS, University of Quebec, joined the CEPII as a visiting researcher, in January 2006. He is a collaborating member of the Inter-University Centre for Research on Risk, Economic Policies and Employment (CIRPEE). As a specialist in regional economic modelling, André Lemelin is particularly concerned with inter-regional trade. He is also interested in financial assets and public debt in CGE models. He is working with researchers at the CEPII who have gained international experience in this field (MIRAGE, DREAM). His contribution focuses mainly on the modelling of inter-regional trade and evolution of public debt.

Dieudonné Sondjo joined the CEPII in February 2006 as an economist. A graduate in econometrics and statistics, his activities at the CEPII include work on the BACI (Base d'Analyse du Commerce International) database and in particular on updating the database and putting it on-line.

FORTHCOMING

La face cachée des échanges: comment rendre compte effectivement des récents bouleversements des échanges commerciaux? 

Organised by the Groupe d'analyses de la mondialisation
2 May 2006

La nationalité des entreprises : quels enjeux face à la montée des grands émergents? 

Organised by the CEPII's Business Club
15 May 2006

2006 OECD Forum: Balancing Globalisation

Organised by the OECD, the CEPII being one of the knowledge partners
22-23 May 2006

La mondialisation détruit-elle des emplois? 

Organised by the Groupe d'analyses de la mondialisation
27 June 2006

Fourth Annual Conference of the Euro-Latin Study Network on Integration and Trade (ELSNIT)

Organised by the IDB and the CEPII
20-21 October 2006

Ouverture et innovation sur les marchés financiers émergents 

Conference organised by the CEFI, the CEPII, the CNCE, Ixis-Cib, MACROFI, the French Embassy in Beijing, *Revue économique* and TX Investment Consulting Co., 27 & 28 March 2007
1st November 2006

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