The **CEPII** *NEWSLETTER*

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THE FRENCH CENTRE FOR RESEARCH
AND STUDIES ON THE WORLD ECONOMY

CONTENTS:

FOCUS

Bank Rescue in the US and in Europe

In mid-September 2008, Lehman Brothers, one of Wall Street champions, failed. After one year of muddling through, the credit crisis mutated and became systemic, jeopardizing the whole international banking system. The wholesale money market froze entirely when interbank loans came to a standstill. The liquidity crisis fed back on solvency risk because banks could not refinance their illiquid and doubtful assets. The huge co-ordinated injection of liquidity by central banks was not enough to restore confidence in banks. Governments had to acknowledge the urgent need to step in with a dual action: directly guaranteeing interbank loans, and strengthening bank balance sheets.

There are many ways to back up bank balance sheets. The US started with the Paulson plan that was hotly debated in Congress and finally adopted in late September under the TARP (*Troubled Asset Relief Program*). The bold initiative was a mass buying of toxic securities built on subprime credit for an amount of $700bn by a public holding company run by the Treasury, supplemented by a blanket $3400bn of MMF (*money market funds*) liabilities.

The idea was to reanimate a market for those distressed securities to enable banks to sell their troubled assets and write off their losses. In buying presently illiquid assets, the Treasury would set a floor price for investors willing to buy in their own in anticipation of a future price rise. However such a market solution raised thorny questions: what was the right starting price? Which assets to buy? Why not buying directly foreclosed houses to stop the slump in house prices? Furthermore, the implementation of the TARP was to take time before it could start operations.

Indeed, time was of the essence. Bank problems deteriorated rapidly and spread to commercial banks and insurance companies, forcing US authorities to emergency measures. Instead of a consistent forward plan, they reacted in a piecemeal way. On September 17, the Treasury had to take on the huge insurance company AIG, buying 80% of its capital that swept off their former shareholders. One week later, another experiment involved the FDIC. The biggest savings bank Washington Mutual and the fifth commercial bank Wachovia had to be rescued in the same week using the same technique. The former was bought by JP Morgan Chase and the latter by Citigroup with the guarantee of a ceiling on the acquired banks losses. All losses beyond the ceilings were taken by the FDIC. Therefore those rescues amounted to a sharing between privatization of profits for the acquirer and socialization of losses for the tax payer.

Meanwhile, the banking crisis was spreading fast in Europe, letting governments, who had repeatedly denied its existence, unprepared. Governments responded separately and piece by piece. In late September, emergency actions that failed first and had to be renewed were undertaken to save two Belgian banks, Fortis and Dexia, and a German bank Hypo Real Estate. Europe looked in disarray when the British government disclosed the first comprehensive and consistent plan on October 8. The British plan looked beyond crisis management in laying out the basis for a new model of finance.

On top of guaranteeing interbank credit, the UK government recapitalized four big banks, investing massively in ordinary shares more than in preferred shares, taking the majority of RBS and a minority control in Lloyds TSB and HBOS that are going to merge. Only Barclays kept some autonomy amongst the banks that requested government help. Furthermore the UK government requires a much higher level of tier 1 capital for the future, putting an effective end to unbridled leverage. Regarding the appalling state of governance in banks, the plan imposes sweeping changes. Trader bonuses and officer salaries will be curtailed. They should be driven by long-run value creation and make allowance for risk. Long-run management, high capital cushion and tighter internal risk control amount to the funerals of the investment bank model of credit.

The British plan was heralded by the heads of state of the euro zone on October 12. Was it effectively adopted? Not at all as far as France is concerned. Instead of guaranteeing loans at the least cost, the Ministry of Finance invented a new public intermediary that will actually refinance bank credit. The state will recapitalize banks without any control whatsoever on bank management. Moreover the French plan offers no perspective neither on the model of banking, nor on bank governance after the crisis.

Hence, it is based on quite different national approaches that advanced economies will participate in international discussions on how to fix international finance in a long-run perspective. Although there is broad consensus on specific points (such as correcting the pro-cyclical features of accounting standard), enhancing international cooperation on the design and implementation of financial regulations may prove as difficult as having the main economies conclude the Doha round or agree on a common, ambitious strategy to fight global warming.

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Coudert V. & Gex M., **Contagion in the Credit Default Swap Market: the Case of the GM and Ford Crisis in 2005**, *CEPII Working Paper*, N° 2008-14, September 2008

Coudert V. & Gex M., **Does Risk Aversion Drive Financial Crises? Testing the Predictive Power of Empirical Indicators**, *CEPII Working Paper*, N° 2007-02, January 2007

Havrylchyk O. & Jurzyk E., **International Exposure of French Banks: Balancing Opportunities and Risks**, *La Lettre du CEPII*, N° 273, December 2007

Havrylchyk O. & Jurzyk E., **Inherited or Earned? Performance of Foreign Banks in Central and Eastern Europe**, *CEPII Working Paper*, N° 2008-16, September 2008

Havrylchyk O. & *alii*, **The Effect of Foreign Bank Entry on the Cost of Credit in Transition Economies. Which Borrowers Benefit the Most?**, *CEPII Working Paper*, N° 2008-15, September 2008

ON THE RESEARCH AGENDA

Trade Policy and Sustainability: Focus on Biofuels

Whereas the financial crisis focuses all attention, the structural tensions on commodity markets are still underlying, especially concerning agricultural markets. The contribution of the recent biofuels development to the silent tsunami is still debated and embarrasses its promoters, mainly the US, the EU and Brazil. According to the US administration, contribution of biofuels production to the increase in food prices remains limited. On their side, international organisations defend more significant effects (over 50% for the IMF, 75% for the World Bank). However, most of the studies referred to avoid two important dimensions so far: (i) trade policy, especially for the European Union, plays a significant role in determining location for biofuels production; (ii) land use analysis is central to assess possibilities of future production and the extent to which food, feed and biofuels production are compatible.

On the basis of the trade policy model MIRAGE developed by CEPII (Decreux and Valin, 2007), we have built a specific model incorporating food production, land use change, agricultural prices, and trade policies at the world level in the same framework. Grounded on the general equilibrium theory, this model describes interactions between the different markets, in a world of limited resources (land and natural resources), and explicitly represents the role of different types of biofuels crops, as well as the role of energy demand and oil prices in the development of substitution fuels. Using this model, it is possible to compare the effect of various trade policy scenarios related to the objectives of the European Union on renewable fuels: mandates, liberalisation, and different schemes of subsidies. Results will allow to progress on the understanding of linkages between commodity prices, their effect on food security across the world, and their overall environmental impact, in terms of CO_2 emissions as well as agriculture sustainability.

Christophe Gouel, Priscila Ramos & Hugo Valin

Interest Rate Convergence: an International Comparison

The increasing integration of international financial markets may have affected the behaviour of interest rates, from both a domestic and an international point of view.

The domestic question is the term structure of interest rates. According to the expectations theory of the term structure, the yields on financial assets of different maturities are related primarily to market expectations of future yields. The theory implies that the yield spread between the long rate and short rate is an optimal predictor of future changes in short rates. While many studies have explored this expectation theory, their results relating to the validity of this theory remain ambiguous.

Turning now to the international question, interest rates are expected to move together across various countries, at least for some groups of countries, although interest rates convergence crucially depends on the exchange rate regimes.

Our aim is to proceed to a detailed study of the interest rate convergence in the context of increasing financial integration. In order to implement a comprehensive analysis and to provide international comparisons, we consider five groups of countries: the Association of South-East Asian Nations (ASEAN) plus China, Japan and Korea (ASEAN+3); the group constituted by Australia and New Zealand Closer Economic Relationship (CER); the North American Free Trade Agreement (NAFTA) group; the Euro area and the European Union.

Adeline Bachellerie, Jérôme Héricourt & Valérie Mignon

Dutch Disease in a Two-Country Model with an Illustration to West African Countries

The members of the Economic Community of the West African States (ECOWAS) have planned to form a monetary union by 2012. These countries are endowed with raw materials, minerals, plantation crops, gas, oil that they export and thus suffer from the so-called natural resource curse. Although monetary union may happen not until 2012, it is worthwhile examining its implications for both WAEMU (West-African Economic and Monetary Union) and WAMZ (West-African Monetary Zone) countries. Specifically, the WAMZ is dominated by Nigeria, a large, oil-exporting country that may suffer from the Dutch disease; is there a risk of the Dutch disease spreading to WAEMU countries? What kind of exchange-rate regime (against the rest of the world) could alleviate this risk? Could a sovereign fund help?

We propose a DSGE, two-country Dutch disease model applied to the ECOWAS- region. Monetary policy is introduced through a money-supply behavior that is related to the exchange-rate regime, together with some nominal rigidities *à la* Calvo and a proportion of financially-constrained households. The role of a sovereign fund is carefully examined.

The model is calibrated and simulated using the key structural characteristics of Nigeria and the WAEMU countries. We then simulate the impact of oil and other commodity price shocks depending on (i) the exchange-rate regime of the union *vis-à-vis* the rest of the world; (ii) the existence of a stabilization fund in Nigeria. We expect the Dutch disease to spread less from Nigeria to WAEMU in the presence of a stabilization fund.

Loïc Batté, Agnès Bénassy-Quéré, Benjamin Carton & Gilles Dufrénot

New Players in International Trade: Europe Facing the Challenge of Emerging Economies and Rentiers

Over the past ten years, advanced economies have lost ground in international trade in favour of new players, but up to now the EU-15 has resisted better than the US and Japan. The study investigates the reasons for this resilience and whether it is sustainable. First, it identifies and classifies the new players into two categories, emerging economies and rentiers, according to the nature of their exports: manufactured goods, services, or primary goods. Then, it provides an in-depth analysis of EU trade with these new players based on Comext data.

The EU has considerably increased its trade with emerging countries and rentiers, which in 2007 accounted for 56% of its imports (excluding intra-EU trade) and 47% of its exports (against respectively 42% and 36% in 1995). The EU records a growing trade deficit with these new players, which is not compensated for by its trade surplus with advanced economies. EU's deficit with emerging countries stems from Asia, while the strengthening of regional ties with emerging neighboring markets (Central and Eastern Europe, Mediterranean countries) has given rise to a trade surplus.

The analysis of trade by stage of production shows that EU trade with emerging economies is increasingly driven by an international segmentation of production processes: EU's strongest position now lays in parts and components while its comparative advantage in investment goods is declining. By contrast, EU trade with rentiers provides evidence of strong traditional complementarity: in 2007, EU surplus in manufactured goods with these countries made up ¾ of its deficit in primary goods. Compared to the US or Japan, the EU has a relatively high trade intensity with rentiers, and is by far their major supplier. The study will assess the opportunities these countries represent for European business, compared to that of emerging markets.

Turning to the composition of EU trade according to price/quality ranges, the study finds out that EU exports to emerging East Asian countries are strongly biased towards high-price/quality goods, while its imports from this region are biased towards medium- and high-price/quality goods. The reasons and the consequences of such favourable terms of trade for Europe will be investigated.

Guillaume Gaulier, Isabelle Bensidoun, Françoise Lemoine & Deniz Ünal-Kesenci

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DATABASES

***TradeProd*: a Consistent Database on World Trade and Production**

In recent years, research in international economics has benefited from detailed and consistent data on bilateral trade volumes, industrial production and tariffs. In 2005

CEPII started to put these data together, building so a precious tool for measuring the globalization process, the industrial specialisation and labour reallocations between countries and industries.

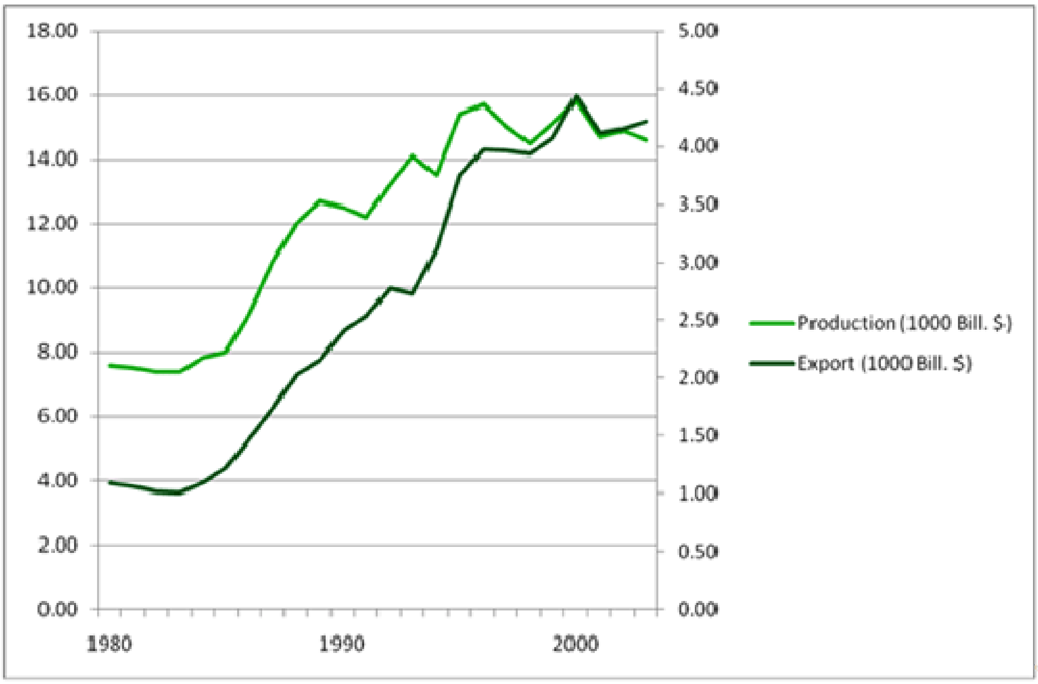
TradeProd combines data in a compatible industry classification: it extends the World Bank database (*Trade, production and protection* from Nicita and Olarreaga, 2006) and adds bilateral data on trade policy (tariffs and NTB) at the industry level. A new version is now available, which expands figures in production, provides bilateral trade based on new and highly disaggregated data: data are disaggregated at the ISIC(rev2) 3-digit industry level (28 industrial sectors) over the period 1980-2004 for production and bilateral trade, and 1989-2001 for bilateral protection data.[1]

Trade data come from BACI, the CEPII World Database of International Trade at the Product Level. BACI uses mirror flows (reconciled to warrant consistency), which increases trade data coverage, especially for developing countries. Over the whole period, 222 countries/territories are covered.[2]

Industrial data come from the UNIDO (number of firms, value added, number of employees and wages) and the OECD STAN Industry Database.

The number of countries for which we have both trade and production data ranges from 31 in 2004 to 110 in 1993, with a mean of more than 93, depending on availability of data. The large set of countries and industries in the database covers a wide share of world trade and production, and allows comprehensive analyses of globalization process.

Figure 1
Total Exports and Production in *TradeProd* (1980-2003)



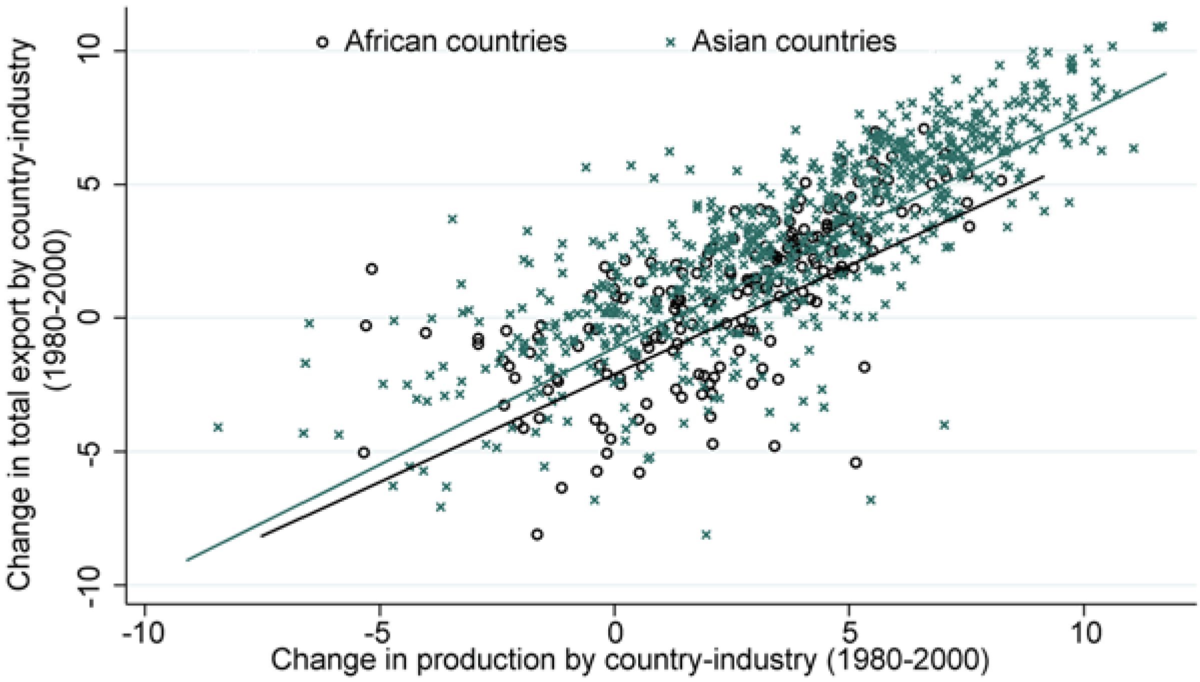
Source: TradeProd.

Figure 1 shows clearly that world trade increased much more rapidly than world production during the last decades.

The high level of disaggregation in *TradeProd* allows more detailed analyses. For instance, Figure 2 shows, for each industry, the relationship between change in Asian and African countries total exports between 1980 and 2000 and the evolution of their production during these twenty years. As expected, trade and production expand jointly in both regions. However, this relationship is steeper for Asian countries than for African countries. This simple fact illustrates how Asia succeeded better than Africa in taking advantage of globalization.

Note that *TradeProd* is above all an accurate tool to describe the world economic geography and has been used for more academic research. For instance, Crozet and Trionfetti (2008) show how geographic proximity to world demand influences countries specialization in increasing returns to scale industries. Mayer and Zignago (2005) use trade and production data to measure trade barriers to the access to Northern markets for Southern producers.

Figure 2
Production and Export Growth for Asian and African Countries



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Mathieu Crozet

1 http://www.cepii.fr/anglaisgraph/bdd/TradeProd.htm
2 http://www.cepii.fr/anglaisgraph/bdd/baci.htm

EVENTS

Sixth ELSNIT Annual Conference on Integration and Trade
Conference organized by the ELSNIT
October 24-25, 2008, Florence, Italy

European Forum on regional integration and trade issues relevant to Latin America and the Caribbean, coordinated by a Steering Committee: CREI, CEPII, IfW, RSCAS and the IDB.

Documents from the conference available at:

http://www.iadb.org/intal/detalle_evento.asp?cid=259&origen=CA&id=367&idioma=ENG

International Migration: Trends and Challenges
Workshop organized by the OECD and CEPII, with the financial support of the AFD
October 23, 2008

About the economic aspects of a global market of human resources. Beyond the selection of migrants, all OECD countries are dealing with questions of recruiting immigrant workers and their subsequent retention, as well as the risk of "brain drain", particularly in developing countries.

All presentations available in pdf

WORKING PAPERS

The Location of Japanese MNC Affiliates: Agglomeration, Spillovers and Firm Heterogeneity
N°2008-24, October 2008

We examine the location choices of the foreign affiliates of Japanese manufacturing firms, using a new data set that matches parents to the affiliates they created over the 1995-2003 period. The analysis is based on new economic geography theory, and thus focuses on the effect of market and supplier access, as well as production and trade costs. Our aim is twofold. First, we investigate the importance of agglomeration and spillover effects on firms decisions via variables showing the presence of Japanese affiliates in the host countries, and Japanese multinational firms at home. Our results confirm the economic importance of information-sharing and network effects, both at home and in the host country, in addition to traditional factors relating to production and transaction costs, and market and supply access. Second, we explore whether the effects of the key determinants of location choice vary according to the characteristics of the investing firm and the affiliate. We find that less productive and smaller parents are more likely to create an affiliate in China rather than in Western Europe or an OECD country. Moreover less productive firms seem more sensitive to distance-related costs and low institutional quality, but are more responsive to the presence of Japanese firms and the presence of a Japanese External Trade Organization (JETRO) agency in the host country.

Tomohiko Inui, Toshiyuki Matsuura & Sandra Poncet

Nonlinear Adjustment of the Real Exchange Rate Towards its Equilibrium Value: a Panel Smooth Transition Error Correction Modelling
N°2008-23, October 2008

We study the nonlinear dynamics of the real exchange rate towards its behavioral equilibrium value (BEER) using a Panel Smooth Transition Regression model framework. We show that the real exchange rate convergence process in the long run is characterized by nonlinearities for emerging economies, whereas industrialized countries exhibit a linear pattern. Moreover, there exists an asymmetric behavior of the real exchange rate when facing an over- or an undervaluation of the domestic currency. Finally, our results suggest that the real exchange rate is unable to unwind alone global imbalances.

Sophie Béreau, Antonia Lopez Villavicencio & Valérie Mignon

Demographic Uncertainty in Europe Implications on Macro Economic Trends and Pension Reforms. An Investigation with the INGENUE2 Model
N°2008-22, October 2008

Ageing is a main concern in Western Europe for the present half century. It impinges heavily upon the financing of retirement because a shrinking labour force will entail decelerating growth. Moreover, contrary to popular opinion and to most prospective studies which rely on deterministic demographic projections, the determinants of population size and structure are stochastic. The present paper makes use of the INGENUE2 model to assess the economic impact of demographic uncertainty in Western Europe.
Demographic uncertainty affects saving, financial conditions and growth significantly from year 2025 onwards. Worst case scenarios can have crippling effects on the financing of public pension under present retirement policies. It makes all the more necessary to study alternatives. We simulate a policy that involves the development of a funding system to substitute to part of the projected increase in the contribution rate, both under deterministic and stochastic demographic forecasts.

Michel Aglietta & Vladimir Borgy

The Euro Effects on the Firm and Product-Level Trade Margins: Evidence from France
N°2008-21, October 2008

We investigate the effects of the euro on French exporters. We build three margins corresponding to the decision of exporting, the number of products exported to each destination, and the average value of exports by product, that compose the expected value of exports of each individual firm on a market. Estimation results that rely on the full sample of exporters suggest that the euro adoption had a positive effect on the number of products exported by each individual firm, and no effect on the decision to export and the average value of exports by product. Though, composition effects are in action: the effect on the decision of exporting, and on the average value of exports by products, is positive - but weakly significant - for firms with more than 20 employees. Finally, we find that euro had no effect on least productive firms.

Antoine Berthou & Lionel Fontagné

The Impact of Economic Geography on Wages: Disentangling the Channels of Influence
N°2008-20, October 2008

This paper evaluates the role of economic geography in explaining regional wages in China. It investigates the extent to which market proximity can explain the evolution of wages, and through which channels. We construct a complete indicator of market access at the provincial level from data on domestic and international trade flows; this is introduced in a simultaneous-equations system to identify the direct and indirect effect of market access on wages. The estimation results for 29 Chinese provinces over 1995-2002 suggest that access to sources of demand is indeed an important factor shaping regional wage dynamics in China. We investigate three channels through which market access might influence wages beside direct transport-cost savings: export performance, and human and physical capital accumulation. A fair share of benefits seems to come from enhanced export performance and greater accumulation of physical capital. The main source of influence of market access remains direct transport costs.

Laura Hering & Sandra Poncet

Do Corporate Taxes Reduce Productivity and Investment at the Firm Level? Cross-Country Evidence from the Amadeus Dataset
N°2008-19, September 2008

This paper uses a stratified sample of firms across OECD economies over the period 1996-2004 to analyse the effects of corporate taxes on productivity and investment. Applying a differences-in-differences estimation strategy which exploits differential effects of corporate taxes on firms with different profitability, it is found that corporate taxes have a negative effect on productivity at the firm level. The effect is negative across firms of different size and age classes except for the small and young, which may be attributable to the relatively low profitability of small and young firms. The negative effect of corporate taxes is particularly pronounced for firms that are catching up with the technological frontier. In the investment analysis, the results suggest that corporate taxes reduce investment through an increase in the user cost of capital. This may partly explain the negative productivity effects of corporate taxes if new capital goods embody technological change.

Jens Arnold & Cyrille Schwellnus

Choosing Sensitive Agricultural Products in Trade Negotiations
N°2008-18, September 2008

The formula approach used in many trade negotiations involves large formula cuts in high tariffs, with flexibilities that allow smaller cuts for selected products. Difficulties in evaluating the effects of these exceptions can create major problems. We use a political economy welfare function and detailed data on the current WTO agricultural negotiations to assess the implications of this approach for welfare and for market access. We find that some previous rules of thumb greatly underestimate the impacts of such exceptions. Indeed, treating even a small number of tariff lines as sensitive and subjecting them to reduced cuts has a sharply adverse impact on welfare, and a smaller but still negative impact on market access.

Sébastien Jean, David Laborde & Will Martin

Government Consumption Volatility and Country Size

N°2008-17, September 2008

This paper provides empirical for a sample of 160 countries from 1960 to 2000 evidence showing that smaller countries tend to have more volatile government consumption. The analysis also shows that country size is negatively related to the discretionary part of government consumption and to the volatilities of most of government consumption items. The results are robust to different time and country samples, different econometric techniques and to several sets of control variables.

David Furceri & Marcos Poplawski Ribeiro

Inherited or Earned? Performance of Foreign Banks in Central and Eastern Europe

N°2008-16, September 2008

Using a combination of propensity score matching and difference-in-difference techniques we investigate the impact of foreign bank ownership on the performance and market power of acquired banks operating in Central and Eastern Europe. This approach allows us to control for selection bias as larger but less profitable banks were more likely to be acquired by foreign investors. We show that during three years after the takeover, banks have become more profitable due to cost minimization and better risk management. They have additionally gained market share, because they passed their lower cost of funds to borrowers in terms of lower lending rates. Previous studies failed to pick up the improvements in performance of takeover banks, because they did not account for the performance of financial institutions before acquisitions.

Olena Havrylchyk & Emilia Jurzyk

The Effect of Foreign Bank Entry on the Cost of Credit in Transition Economies. Which Borrowers Benefit the Most?

N°2008-15, September 2008

We employ a unique dataset to study the impact of foreign bank ownership and mode of entry on banks lending rates to transparent and opaque borrowers. We find that greenfield banks charge lower lending rates on average and we test for two hypotheses that can explain the lower cost of credit of these institutions: (1) superior performance or (2) different portfolio composition with a focus on more transparent borrowers. Our analysis shows that bank ownership and mode of entry have a large impact on banks portfolio composition in terms of borrowers, maturity, and currency. After controlling for these differences, we do not find any impact of foreign bank ownership and mode of entry on lending rates, which is in line with the "portfolio composition hypothesis".

Hans Degryse, Olena Havrylchyk, Emilia Jurzyk & Sylwester Kozak

Contagion in the Credit Default Swap Market: the case of the GM and Ford Crisis in 2005

N°2008-14, September 2008

Has the General Motors (GM) and Ford crisis in 2005 spread to the whole credit default swap (CDS) market? To answer this question, we study the correlations between CDS premia, by using a sample of 226 CDSs on major US and European firms. We show that correlations significantly increased during the crisis, especially in the first week. We also test the links between markets at the firm level, using VECM and VAR models. The lead of the CDS market over the bond market appears to have weakened during the crisis. The links with the equity market were also mitigated.

Virginie Coudert & Mathieu Gex

Exporting to Insecure Markets: a Firm-Level Analysis
N°2008-13, September 2008

This paper proposes an original approach to investigate the influence of insecurity and institutional quality on international trade. We emphasize that insecurity is hardly comparable with other trade barriers such as tariffs because it does not affect all firms similarly. We develop a monopolistic competition trade model with insecurity as a random additional sunk cost for exporting firms. A higher level of insecurity may dissuade large firms to export, while some smaller ones may be able to enter the export market. Hence, insecurity disrupts firms selection into export markets, and this has particular effects on trade margins. Two discriminating predictions are derived from the model and confronted to the data. Using individual French firms exports to 100 destination countries, we find clear evidence corroborating our theoretical predictions.

Mathieu Crozet, Pamina Koenig & Vincent Rebeyrol

Social Competition and Firms' Location Choices
N°2008-12, July 2008

The paper evaluates the empirical effect of labor market institutions on foreign direct investment (FDI) decisions. A firm-level dataset describes French firms expansion strategies abroad over the 1992-2002 period. Following Head and Mayer (2004b), the determinants of individual FDI decisions are estimated by implementing a discrete choice model on all possible foreign locations. The estimated equation is derived from a partial equilibrium model combining elements of the new economic geography literature and the labor market literature.

We find that labor market institutions do impact French firms location decisions. Our overall results suggest that labor market rigidity puts a brake on the host countrys attractiveness. More detailed analysis shows that the estimated effects depend on the sample of countries considered as potential locations. French firms are found to be much more sensitive to the design of labor market institutions when FDI decisions take place within the set of industrialized OECD countries.

Vincent Delbecque, Isabelle Méjean & Lise Patureau

Border Effects of Brazilian States
N°2008-11, June 2008

We estimate the degree of trade integration among Brazilian states and calculate the magnitude of the Brazilian states' engagement in international trade for the years 1991, 1997, 1998 and 1999 using the methodology of border effects. We show that the Brazilian market is rather highly fragmented but less than the Chinese market. Brazilian sub-national borders reduced interstate trade by a factor of 23 in 1991 and a factor of 13 in 1999, indicating an ongoing process of domestic integration. International trade integration of Brazilian states increased over the period 1991-1999 in conjunction with the strategy of outward orientation. Border effects differ greatly among Brazilian states: internal and international trade integration is low for Northern Regions (with the exception of Amazonas State) and high for Southern regions, the most domestically integrated states being also those most engaged in international trade.

Marie Daumal & Soledad Zignago

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RECENT PUBLICATIONS

ECONOMIE INTERNATIONALE, QUARTERLY

Issue 113, 1st Quarter 2008

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Jean-Yves Gnabo & Christelle Lecourt

Shake Hands or Shake Apart? International Relationship of Japan with Global Blocs
Toshihiro Okubo

Vieillissement, retraites et ouverture financière en Europe : des réformes encore insuffisantes
Xavier Chojnicki & Riccardo Magnani

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Cindy Duc, Emmanuelle Lavallée & Jean-Marc Siroën

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Nadia Belhaj Hassine

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LA LETTRE DU CEPII , QUARTERLY

Euro-Dollar: Face-to-Face

N° 279, June 2008

The financial crisis that began during the summer of 2007 accelerated the depreciation of the dollar. Has the dollar now fallen far enough for global disequilibria to be reabsorbed and for a reappreciation to take place? What do the two methods commonly used to determine medium- or long-term equilibrium exchange rates tell us? The results they give differ, but they both indicate that the dollar and the euro are overvalued in real effective terms. The two currencies should therefore depreciate in relation to other currencies. The abruptness of the dollar s depreciation since summer 2007 might mean that the U.S. currency s current weakness will be relatively short-lived. As for the euro, its depreciation against other currencies is countered by the fact that it forms the main alternative to the dollar.

Agnès Bénassy-Quéré, Sophie Béreau & Valérie Mignon

American and European Agricultural Market Access: A Concern for The South?

N° 277, April 2008

For years, the agricultural policies of the United States and the European Union have been the object of internal debate at the same time as they have been at the heart of agricultural discussions in the Doha round of WTO negotiations. The CAP (Common Agricultural Policy) is being examined in the framework of the Health Check and of the general review of EU community finances, the American discussions about the Farm bill are making no headway and the Doha round of negotiations is still blocked. The food crisis that has been developing over the last few months has put agricultural issues into the headlines again. A workshop on European and American agricultural policies took place last March, organised by Bruegel, the CEPII, the German Marshall Fund and the IFPRI. The CEPII presented the conclusions of its evaluation of the effects of opening the European and American agricultural markets to the developing economies. This Letter summarises the principle results of this work.

Christophe Gouel & Maria Priscila Ramos

Economic Partnership Agreements: The Impact of Trade Liberalisation
N° 276, March 2008

The WTO rules of non-discrimination require a redefinition of the existing trade agreements between the European Union and the ACP countries. If they wish to retain preferential access to the European market, these countries and the EU will have to come to a reciprocal free trade agreement (EPAs) covering most of the bilateral trade. But uneven development creates a high degree of asymmetry between the two negotiating parties, accentuated by the current levels of protection which strongly concentrate the effort necessary to accomplish the liberalisation reform on ACP countries. In this article we evaluate the commercial and budgetary impact for each of the six ACP regions with whom the EU has been negotiating. For some countries, the transition will be difficult and will require sustained European support.

Lionel Fontagné, David Laborde & Cristina Mitaritonna

Understanding the Structured Credit Crisis
N° 275, February 2008

The financial crisis which is raging in the West is quite strange. Why is it that repayment problems in a very particular segment of the United States housing finance market (subprime mortgages) has degenerated into a generalised credit crisis which could have completely paralysed the international bank liquidity market without the repeated and massive intervention of the central banks? To understand this we have to delve into the arcane world of the financial model called the securitization of debts which has become prevalent in the United States since 2001. Recent studies have shown that this model leads to reduced risk aversion on the part of lenders and to an under-assessment of the risk attached to loans. The spreading of risk, which is the purpose of securitization, is accompanied by a loss of information on the risk of loans right along the chain, from the end borrower to the buyers of tranches of secured debt. This financial model has become a loss generating machine.

Michel Aglietta

***La Lettre du CEPII*: a Chronicle of Globalization**
N° 274, January 2008

1978-2008, CEPII is thirty years old! For *La Lettre du CEPII*, its four-page, monthly publication, it is an opportunity to look back over the thousands of pages published since its first issue.

Agnès Bénassy-Quéré, Agnès Chevallier & Michel Fouquin

FORTHCOMING

Les pays émergents dans la tourmente

Organized by the CEPII Business Club

December 15, 2008

Les Etats-Unis dans la mondialisation

12th Workshop of the Group "Assessing Globalization"

December 17, 2008

Grands et petits émergents à l'épreuve de la crise

Organized by MEDEF International & the CEPII Business Club

December 18, 2008

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