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FOCUS

The Twin Sovereign and Banking Crisis in the Euro Area

Europe's banking system has been in a continuous stage of systemic fragility since the beginning of the financial crisis in 2007-08. The present phase is a two-way process of sovereign and banking crises feeding one another. Governments and regulatory authorities have been reluctant to endeavor bank restructuring, because the aggregated total of bank assets are outsized compared to GDP. The European model of universal banking involves a commitment from banks in financing the economy much larger than in the US and Japan. Furthermore European banks are so closely intermeshed with cross border assets and liabilities, that bank failure has been thought as impossible. Worse, supervisory authorities have developed an attitude of denial of the moral hazard created by the "too-big-to-fail" argument and of the conflicts of interests inherent in diversified financial conglomerates.

Hurt by the 2008 financial crisis, European banks still absorbed the bulk of public debt expansion triggered by the multiple sources of public expenditures in 2009-10: discretionary expenditures of the stimulating plans, automatic stabilizers due to the recession and rescue to banks which were partly straight expenditures. To finance the surge in expenditures, governments issued large amounts of bonds. Borrowing from the ECB at a very low interest rate, banks bought hundreds of billions of Euros in sovereign bonds, hoping that they were piling up riskless profits. They thought there was no need to use these profits to foster their capital base and no supervisor told them to do so, though undetermined amounts of bad legacy assets were sitting on their books.

When the Greek sovereign debt crisis burst out in April 2010 and gave rise to the first rescue plan in May,

banks were considered robust enough to withstand potential losses. Indigent stress tests in July confirmed their apparent good financial health. However, one year later the macroeconomic situation was deteriorating alarmingly throughout the Euro area and recession is looming for the 4th quarter of 2011 and early 2012. Worries for the health of government finances in a much larger set of countries grasped the financial markets, inducing an alarming widening in sovereign bond spreads.

Then, in the summer of 2011 the financial crisis got systemic again. Asset markets plummeted worldwide and European bank shares were hit the most. US mutual funds withdrew deposits from European banks in droves. Counterparty risk came back to the front, making bank funding very expensive. Indeed, the threat of a sovereign default impinges upon the banks by several channels:

- The fall in the value of bank assets raises the funding cost and the vulnerability to shocks in downgrading the value of collaterals.
- Profits are impaired with the disappearance of state guarantee on borrowing costs.
- Rating agencies downgrade sovereigns and banks in tandem, making investors reluctant to purchase bank bond issues, all the more than the opacity of bank balance sheets make them unable to discriminate between robust and fragile banks.

In October 2011 the financial situation of a large number of banks has deteriorated so much that the denial of the urgent need to recapitalize has become untenable. After an initial warning by the IMF urging an injection of capital in all large European banks, the European Banking Agency (EBA) ran stress tests to estimate capital shortfalls. In the meantime the ECB has confirmed its concern for keeping the vital liquidity lifelines open. Since May 2010 it has purchased €160bns in crisis-hit government debt. In October it has announced that it will extend the maturity of its unlimited facility to 12 month loans, lasting until early 2013 and in December it extended to 3-year maturity.

The latest stress scenario in early December 2011 identified an overall capital shortfall of €115bns after core tier-one required capital ratio had been raised to 9%. The bulk of the shortfall obviously impinges upon the banks in debt-ridden countries (Greece, Spain and Italy). However German banks with a capital gap of €13.1bns are in a much more dire shape than French banks (€7.3bns). The trap is the very low price of bank shares that precludes capital-raising via issue of new shares. Therefore banks are busy shedding assets to shrink the size of their balance sheet, threatening a credit crunch that would worsen the incoming recession and make the public debt problem still more acute. This means that nothing less than wholesale ECB purchase of sovereign bonds to keep interest rates at reasonable level will make fiscal consolidation feasible.

Michel Aglietta
December 19, 2011

ON THE RESEARCH AGENDA

Liberalization, Democratization and Technology Adoption

This study provides a theoretical and empirical investigation of the role of liberalization, democratization and their interactions on the level of technology adopted in an economy. A general equilibrium theory with heterogeneous skills is set up to study the incentives of different groups to favor, or oppose, technology adoption in open and closed economies. The theory predicts the existence of a complementarity between liberalization and democratization for technology adoption. Liberalization should lead to an acceleration in productivity growth if coupled with democratization but may lead to a slowdown if these institutional changes are imbalanced. The predictions are tested using panel data for the period 1980- 2000 by exploiting within country variation and the heterogenous timing of liberalization and democratization in a difference-in-difference approach. The results confirm the existence of a robust positive interaction between these institutional changes for technology adoption and productivity growth. A transition from a closed autocracy to an open democracy substantially increases productivity. In turns, democratization alone does not significantly increase productivity while liberalization of autocracies may even lead to slow down in technology adoption or productivity. The results substantially qualify previous findings and have relevant policy implications.

Matteo Cervellati, Alireza Naghavi & Farid Toubal

Integration of Landlocked Developing Countries into the Global Economy: The Role of Infrastructures

According to the United Nations, 31 developing countries are landlocked and are dubbed as landlocked developing countries (LLDCs). The LLDCs are not well-integrated into the global economy: because of the lack of maritime access, the high transit and information costs, and the isolation from international markets, they tend to exhibit lower trade and financial integration, and lesser output synchronicity with the rest of the world. As a result staying on the fringes of the global economy, the LLDCs lag behind their coastal neighbors in overall development, putting most of them among the world's poorest (16 landlocked developing countries are classified in the as least developed). At the same time, infrastructure development (physical, financial and social) especially through trade and investment cost-reduction, appears to promote trade integration, financial integration and business cycle synchronicity. It is then relevant to investigate how infrastructures could contribute to integrate the LLDCs to the global economy.

We argue that infrastructure development, by reducing transaction costs and improving investment return, can help LLDCs overcome geographical constraints and improve their integration to the global economy. Following a similar empirical approach as in Kose, Prasad and Terrones (2003), we explore the impact of infrastructure development on financial integration, trade integration and output synchronicity of LLDCs from 1980 to 2009. In particular, we examine which type of infrastructure matters the most for LLDCs integration and also whether there may be some complement relationships between the different kinds of infrastructures and between infrastructures of the landlocked country and those of their neighbors.

Maëlan Le Goff & Sampawende J-A Tapsoba

Reference: Demircuc Kunt, A. & Huizinga, H. (2001), The Taxation of Domestic and Foreign Banking, *Journal of Public Economics*, Vol. 79, pp. 429-453.

Native language, spoken language, translation and trade

We construct new series for common native language and common spoken language for 195 countries, which we use together with series for common official language and linguistic proximity in order to draw inferences about the sources of the impact of common language and about the size of this impact on bilateral trade. The fundamental questions about the sources of linguistic influence are whether they come from ethnicity and trust or ease of communication, and in so far they come from ease of communication, to what extent translation and interpreters play a role. The results show that ease of communication is far more important than ethnicity and trust. Further, so far as ease of communication is at work, translation and interpreters are extremely important. Ethnicity and trust largely come into play because of immigrants and their influence is otherwise difficult to detect. Finally, the impact of linguistic factors, all together, is at least twice as great as the usual dummy variable for common language, resting on official language, would say.

Jacques Melitz & Farid Toubal

A Pan-European Productivity Comparison: How Far from the Mark?

This work occurs some twenty years after the first bilateral comparisons of real production and productivity levels carried out by the CEPIL for the years 1987 and 1997 in the framework of the ICOP project of the University of Groningen. Since the beginning, Cepii has addressed convergence issues in Europe, either in the scope of a common currency shared by close economies (France and Germany) or with a regional integration prospect for peripheral emerging countries (Egypt, Spain, Morocco, Portugal and Turkey). The German reunification was also scrutinised in this perspective.

This project investigates real production and productivity levels in the manufacturing sector, on the basis of a new comparison of output price levels for the year 2007 between several European countries and Germany (Finland, France, Greece, Italy, Poland, Portugal, Spain, and the UK), using the Prodcom and Structural Business Statistics of Eurostat for levels and EUKLEMS for the time series. The assessments of the strengths and weaknesses of the economy in terms of prices are generally carried out with growth rates, as levels are hardly available. This paper offers to fill the gap by computing production price parities, which can be used as deflators. Price, production and productivity levels matter for competitiveness issues and for real convergence within the European Union as well. Differences in the

price and unit labour costs levels are key to explaining the present financial and economic crisis in Europe.

This work will be presented at the 32nd International Association for Research in Income and Wealth (IARIW) General Conference, to be held on August 5-11, 2012, in Boston.

Laurence Nayman & Deniz Unal

MAcMap-HS6 2007

Since 2001, CEPII and ITC have been engaged in a joint-work consisting in providing to the applied economist community a tariff database, in a consistent framework based on a robust methodology.

This database, named MAcMap-HS6 – which stands for Market Access Map, in the HS6 classification - provides ad-valorem equivalents of protection for 164 importing countries (EU being considered as a single entity) vis-à-vis 238 exporting countries, in the six-digit harmonized classification of international trade (more than 5,000 products).

Two versions of this dataset were already released for the year 2001 and 2007. The present update of this dataset concerns the year 2007. Among various uses of such a database, the measure of the protection for analytical purposes is one of its main interests (CGE applications, econometrics). Thus, like its previous versions, this new dataset is included in the last version of the GTAP database, a set of world social accounting matrixes widely used by, amongst others, CGE modelers.

The MAcMap-HS6 project has also developed a practical method of weighting system, named the reference group weighting scheme which aims at limiting the endogeneity bias when protection data are aggregated. Weighting scheme is computed using CEPII's Tariff Lines dataset. The latter is also used to calculate unit values to convert specific tariffs into ad-valorem equivalents.

Houssein Guimbard

DATABASES

International Specialization: A focus on services

The specialization of countries in international trade reveals their comparative advantages and disadvantages. The CHELEM database which provides complete and consistent statistics classified by country in the long term is used to analyze the structural aspect of the competitiveness of nations in all economic sectors, namely the primary sector, industry and services. This is a valuable tool since in most databases trade in goods and services are rarely available in a common classification and over a common time period. The chart below shows the contribution of three sectors to the trade balances of the United States, the EU-27 and Japan (the Triad) and those of three major emerging economies (Brazil, China, India) between 1995 and 2009. It is an indicator of specialization in international trade (see box).

BOX: The measurement of comparative advantages

International specialization of economies (their comparative advantages and disadvantages) is here measured through the CEPII's indicator of contribution to the trade balance (CSC) (<http://www.cepii.fr/franograph/bdd/chelem/indicateurs/indicpresent.htm>). It compares, in thousandth of total trade, the real trade balance of a country for one specific product with a theoretical balance corresponding to no specialization.

$$CSC = \left(\frac{1000}{\sum (X_i + M_i)} \right) \left[(X_i - M_i) - \frac{\sum (X_i - M_i)}{\sum (X_i + M_i)} (X_i + M_i) \right]$$

where X are exports and M imports of the country i for the product k .

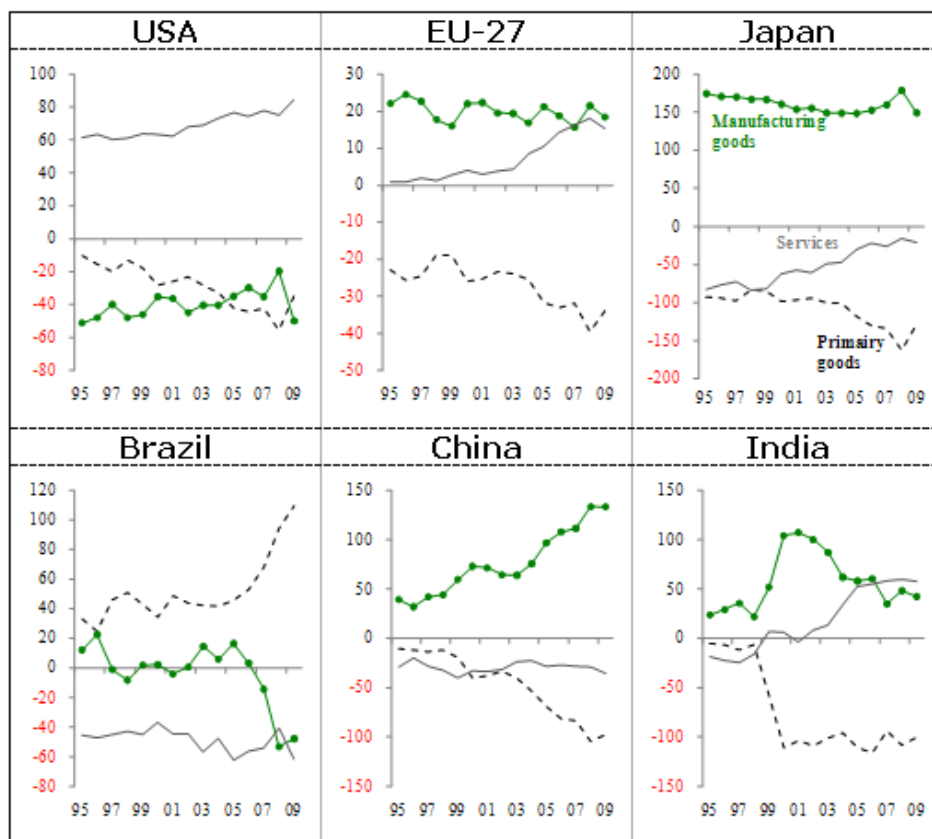
In order to eliminate the cyclical effects induced by an overall balance in imbalance and bring out only the specific situation of the products against each other, the theoretical balance is calculated to reflect an equilibrium situation: if there were no comparative advantage or disadvantage, then the total trade surplus or deficit would be distributed across all products according to their share in total trade. The contribution to the trade balance is the difference between the actual balance and this proportional, theoretical balance. The indicator is additive and the sum of all products is zero.

The range of comparative advantages (the scale of contributions to the balance) is used to understand the differences between countries in their degree of specialisation.

The graphs for countries in the Triad show that developed countries are in a process of specialization in which they are gradually phasing the industry and engaging increasingly in services. The service sector dominates the specialization of the United States over the whole period. While industry sector remains its strength, the EU is heavily involved in services in the 2000's and the service sector now contributes as much as industry to the trade balance. Manufactured goods are still the only strengths in Japan. But the Japanese economy has virtually eliminated its great disadvantage in the service sector since the mid-1995.

In the major emerging countries, services are not a source of trade surplus, with the notable exception of India. Thus, since the early 2000s, while services have always been a strong comparative disadvantage of the Brazilian economy, the great emerging American country has been increasingly involved into the production of the primary sector and disengages from industry. Manufactured goods are the base of huge surpluses in China. India is the only country that shows a surplus as large in services than in industry. Its special feature is that this surplus comes from the information technology services rather than from tourism, as it is the case in many other countries (see table).

Specialization in three sectors: Triad and major emerging countries



Source : CEPII, CHELEM International Trade and CHELEM Balance of payments, authors' calculations

The details of the five strengths of each country / area are shown in the table which appears to better distinguish their specializations:

- financial services for EU-27 and
- industry (aerospace products), followed by four strong advantages in services (including patents and royalties) for The US.

The 2008 financial crisis has questioned not only the macroeconomic management of the developed countries but also their mode of integration to international trade. The strong comparative advantage in the European Union in the financial products may raise concerns about future growth.

The five strengths of specialization
Average 2006-2008
(contributions to the balance, thousandth of total trade)

USA		EU-27		Japan	
Aeronautics	22	Financial services	7	Cars and cycles	65
Royalties & license fees	22	Specialized machines	4	Engines	16
Travel	22	Other business services	4	Electrical apparatus	14
Financial services	15	Engines	4	Vehicles components	14
Other business services	14	Pharmaceuticals	4	Specialized machines	13
Brazil		China		India	
Iron ores	45	Computer equipment	38	Computer services	80
Oth. edible agricultural prod.	39	Telecommunications equipment	26	Refined petroleum products	38
Meat	20	Miscellaneous manuf. articles	22	Clothing	13
Iron steel	20	Leather	20	Iron steel	12
Sugar	15	Clothing	18	Knitwear	10

Source: CEPII, CHELEM International Trade and CHELEM Balance of payments, authors' calculations

Colette Herzog & Deniz Ünal

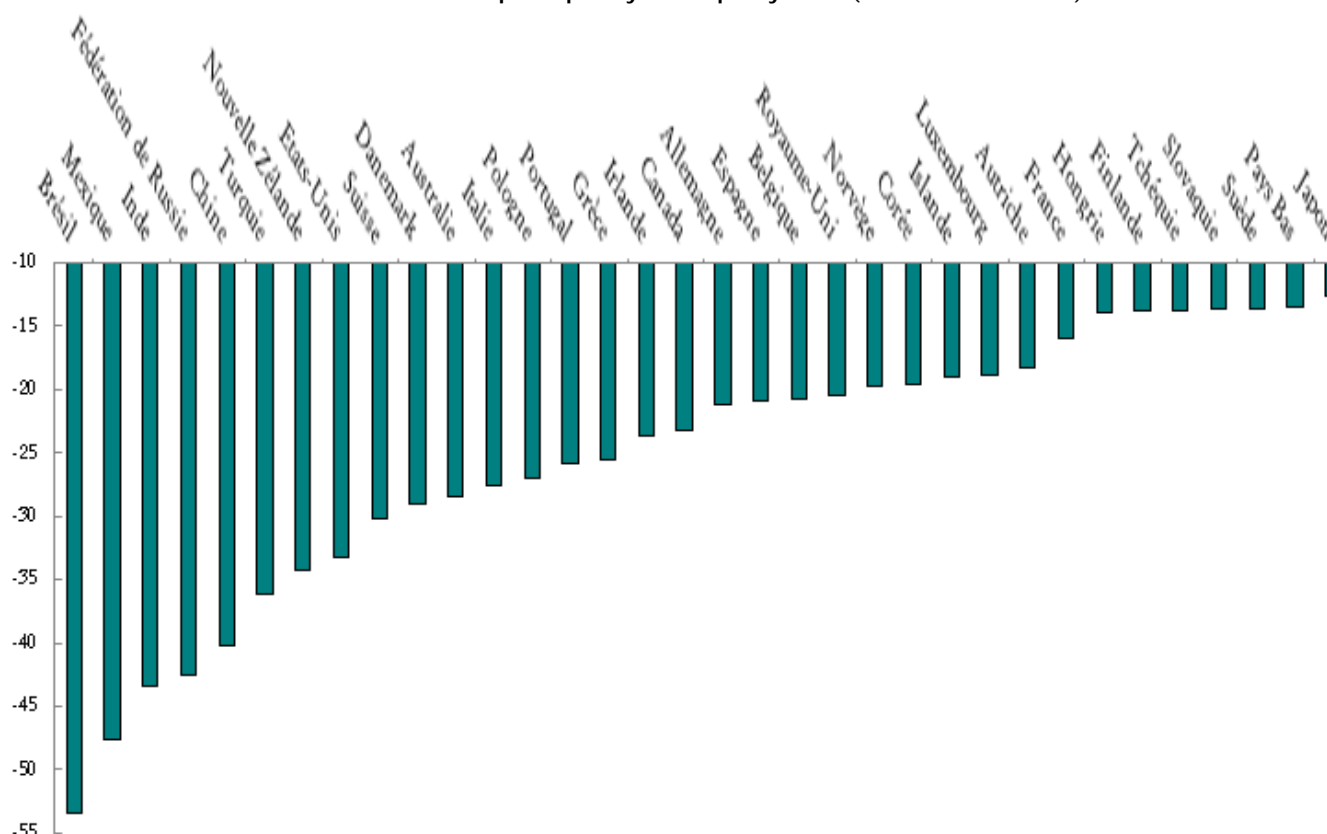
Reference: Report of the Commission on the Measurement of Economic Performance and Social Progress, September 2009

CEPII's Well Being Indicator

Although economists have long stressed the limitations of using GDP to evaluate standards of living, the debate was recently reignited by the publication of the Stiglitz report. The CEPII has proposed to calculate an indicator for the year 2009 and 34 countries incorporating certain social data items in terms of income equivalents, such as leisure time, poverty associated with unemployment, longevity and size of households; this indicator takes also account of inequalities, depletion of natural resources, deterioration of the environment and consumption of fixed capital.

Aside from the impact of family size which is the most important, the second most important correction takes account of internal inequalities. By virtue of its very construction, this correction is negative for all countries. It is especially pronounced for highly unequal emerging countries: Brazil (correction equivalent to -53% of GNI/inhab.), Mexico (-48%), India (-43%), the Russian Federation (-43%) and China (-40%). It also has a negative effect on Anglo-Saxon countries, particularly the US (-33%). At the other end of the scale, the thirteen countries with corrections under 20% include Japan (-13%), France (-16%) the Czech Republic, Slovakia and the Scandinavian countries. (graph)

Correction of income per capita by an inequality factor (as a % of GNI/inhab.)



Source: World Bank. Authors' calculations.

- Greenhouse gas emissions introduce a cost equivalent to only 1.6% of GNI on average for all countries considered. Of course, had we adopted a higher carbon value, the picture would be different. Account should also be taken of other forms of environmental deterioration, although these are typically difficult to evaluate; here too, probably, corrections would be larger in emerging countries than in developed countries.
- The depletion of natural resources results in an average drop of 3.5% of GNI.
- Accounting for unemployment (over and above the loss of production already taken into account in GDP) represents 5% of GNI at most.
- Fixed capital consumption has similar effects across countries, averaging out at 14.9% of GNI. Emerging countries such as India and China typically have more recent capital, whereas the countries of Central Europe and Japan have significant stocks of ageing capital.
- Health, addressed from the perspective of life expectancy, operates favourably in Japan, used as the reference here, and in Northern European countries. It operates very unfavourably in respect of emerging countries, particularly Russia, which is beset by serious public health issues.
- Leisure activities give a considerable advantage to Northern European countries, whereas Anglo-Saxon countries and emerging countries have much less free time on average.

Michel Fouquin

Note: In the cases of China and India, the World Bank's data concerns the distribution of expenditures on consumption and not that, more unequal, of incomes. Therefore we have corrected the Indian inequality indicator by data from "Notes on Inequality and Poverty" by Surjit S. Bhalla prepared for the NBER conference from the 10th to 13th January 2009, and for China from Sutherland and Yao, "Income inequality in China over 30 Years of reforms", Cambridge Journal of Regions, February, 1 2011.

WORKING PAPERS

Economic Impact of Potential Outcome of the DDA

N° 2011- 23, November 2011

Using a dynamic computable general equilibrium model of the world economy (MIRAGE), we simulate the impacts of the most recent drafts circulated in the multilateral trade negotiations arena, augmented by a

modest outcome of the negotiation in services. The liberalisation of tariffs is implemented at the product level in order to take into account exceptions, flexibilities as well as the non-linear design of the formulas. A reduction in domestic support and the phasing out of export subsidies are taken into account. We integrate dynamic gains up to 2025. We observe a \$US70bn world Gross Domestic Product (GDP) long run gain when agriculture and industry are liberalised, a \$US85bn gain when a 3% reduction in protection for services is added to certain services sectors. Calculation of the gains associated with trade facilitation suggests roughly a doubling of the expected gains (\$US152bn); port efficiency adds another \$US35bn. In total, the \$US187bn gains identified here in the scenario combining liberalisation in trade in goods and services with trade facilitation and port efficiency, would accumulate to world GDP every year in the medium term, compared to the situation without agreement. Recent proposals for sectoral initiatives would add a further \$US15bn on top of these gains.

Yvan Decreux, Lionel Fontagné

More Bankers, More Growth? Evidence from OECD Countries

N°2011- 22, November 2011

In this paper, we reexamine empirically the finance/growth nexus. We argue that financial deepening should not only be assessed with familiar measures of financial activities outputs (e.g. credit volume), but also through its inputs (e.g. the relative number of employees in the financial industry) or the efficiency of the financial intermediation process (measured in this paper by the ratio credit volume to number of employees). Overall, our study confirms the absence of a positive relationship between financial deepening and economic growth for OECD countries over the last forty years.

Gunther Capelle-Blancard, Claire Labonne

EMU, EU, Market Integration and Consumption Smoothing

N°2011- 21, October 2011

We take a new approach to the study of the impact of EMU on consumption smoothing that allows a broader range of channels to enter into view. It is no longer simply a question of the smoothing of asymmetric output shocks via cross-country holdings of property and claims, as it is often the case. Consequently, we find that while EMU tends to smooth consumption, it is not through cross-country property and claims. Rather it comes through the promotion of the tradability of capital: specifically, the encouragement of price competition, contestable home markets, ability to borrow and buy insurance at home, and through an increase in the harmonization of regulations. Some of the consumption smoothing may also depend on EU membership rather than EMU as such but EMU adds to it. As a fundamental part of the analysis, the paper uses a new index of currency union which focuses on the ratio of trade with other countries sharing the same currency relative to total foreign trade.

Atanas Christev, Jacques Melitz

Real-Time Data and Fiscal Policy Analysis: a Survey of the Literature

N°2011- 20, October 2011

This paper surveys the empirical research on fiscal policy analysis based on real-time data. This literature can be broadly divided in three groups that focus on: (1) the statistical properties of Revisions in fiscal data; (2) the political and institutional determinants of projection errors by governments and (3) the reaction of fiscal policies to the business cycle. It emerges that, first, fiscal data revisions are large and initial releases are biased estimates of final values. Second, the presence of strong fiscal rules and institutions leads to relatively more accurate releases of fiscal data and small deviations of fiscal outcomes from government plans. Third, the cyclical stance of fiscal policies is estimated to be more 'countercyclical' when real-time data are used instead of ex-post data. Finally, more work is needed for the development of real-time datasets for fiscal policy analysis. In particular, a comprehensive real-time dataset including fiscal variables for industrialized (and possibly developing) countries, published and maintained by central banks or other institutions, is still missing.

Jacopo Cimadomo

On the Inclusion of the Chinese Renminbi in the SDR Basket

N°2011- 19, July 2011

We study the impact of a broadening of the SDR basket to the Chinese currency on the composition and volatility of the basket. Although, in the past, RMB inclusion would have had almost negligible impact due to its limited weight, a much more significant impact can be expected in the next decades, and more so if the Chinese currency is pegged to the US dollar. If the objective is to reinforce the attractiveness of the SDR as a unit of account and a store of value through more stability, then a broadening of the SDR to the RMB could be appropriate, provided some flexibility is introduced in the Chinese exchange-rate regime. This issue of flexibility is de facto more important than that of "free usability" to make the SDR more stable, at least in the short and medium run.

Agnès Bénassy-Quéré, Damien Capelle

Unilateral Trade Reform, Market Access and Foreign Competition: the Patterns of Multi-Product Exporters

N°2011- 18, July 2011

Recent findings in international trade using detailed firm level surveys emphasize the microeconomic effects of trade liberalization episodes. A unilateral trade reform has two opposite effects on firms' export patterns: (i) expansion of export opportunities for foreign firms exporting to that destination and (ii) intensification of foreign competition in the liberalized market. The main contribution of this paper is to investigate this trade-off between market access growth and tougher competitive pressures in the export market. Using detailed firm-product-destination data for French firms (1999-2005), we explore how the margins of French exports react to unilateral trade liberalization of Asian countries, with particular attention given to China. We exploit the exogenous variation in Chinese import tariff cuts relative to tariff changes in other Asian countries. Our findings suggest that French firms expanded the range of their exported products and the volume of exports to China relative to other Asian destinations after Chinese tariff liberalization. These results are robust when we explicitly account for foreign competition of third countries in the liberalized market. Quantitatively, a 7 percent decline of Chinese tariff on average during the period 1999-2005, results in almost 6 log points expansion of a firm's export product scope and 14 log points of firms' export sales.

Maria Bas, Pamela Bombarda

The "Forward Premium Puzzle" and the Sovereign Default Risk

N°2011- 17, July 2011

Carry-trade strategies which consist of buying forward high-yield currencies tend to generate positive excess returns during long periods of time. Here, we aim at explaining this puzzle by the default risk, which is frequently taken on by investing in high-yield currencies. We empirically test for this hypothesis on a sample of 18 emerging currencies over the period from June 2005 to September 2010, the default risk being proxied by the sovereign credit default swap spread. Relying on smooth transition regression models, we show that default risk fuels the carry-trade gains during periods of upbeat financial markets, and worsens the losses in bear markets. We then introduce the default risk into the "Fama regression" linking the exchange-rate depreciation to the interest-rate differential. The "forward bias", usually evidenced by a coefficient smaller than unity in this regression, is somewhat alleviated, as the default risk partially explains the excess return.

Virginie Coudert, Valérie Mignon

Occupation-Education Mismatch of Immigrant Workers in Europe: Context and Policies

N°2011- 16, July 2011

This paper analyses occupational matching of immigrants from over seventy countries of origin to 22 European countries. Using European Social Survey for the years 2002-2009 and the multinomial logit framework, we show that, relative to the native born, immigrants are more likely to be both under- and overeducated for the jobs that they perform. This mismatch is due to individual-specific factors, such as labor market experience and its transferability. Immigrants' outcomes converge to those of the native born with the years of labor market experience. The mismatch is also due to immigrants' selection and sorting across countries. Notably, we show that origin countries' degree of income inequality and the quality of human capital, by affecting selection, mostly matter for undereducation of immigrants. Overeducation is determined to a greater extent by destination-country economic conditions and labor market institutions.

Immigrant-specific policies in destination countries, such as those improving eligibility and fighting discrimination, also positively affect overall matching, while policies promoting integration decrease undereducation.

Mariya Aleksynska, Ahmed Tritah

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RECENT PUBLICATIONS

LA LETTRE DU CEPII, MONTHLY

TEN YEARS AFTER DOHA

N°2011- 315, November 2011

A new "Ministerial" of the World Trade Organisation (WTO) will be held in Geneva 15-17 December 2011. Usually, such meeting of member countries at the ministerial level is supposed to unlock the ultimate details before a deal is concluded. The achievement of this ministerial will be more modest. The current Round of multilateral trade negotiations that was launched in Doha on 14th November 2001 has reached a critical point and the question now is how to salvage a decade of infructuous negotiations. Even an interim agreement dedicated to poor countries and trade facilitation is out of reach.

Lionel Fontagné

Can the Renminbi Make the SDR More Attractive?

N°2011- 314, September 2011

As part of discussions on reforming the International Monetary System, there has been renewed interest in the Special Drawing Right (SDR). In April 2011, the finance ministers and central bankers of the G20 decided to work on a "criteria-based path to broaden the composition of the SDR". In practice, this would lead to the inclusion of the Chinese currency in the SDR, alongside the dollar, the euro, the yen and the British pound. This project is motivated by two main objectives: first, to make the SDR more attractive as a store of value and unit of account; second, to strengthen international monetary cooperation. The main obstacle is that the Chinese currency is not "freely usable", in the terminology of the International Monetary Fund. Given the ongoing process of internationalization of the currency and flexibilization of the exchange-rate regime, relatively rapid inclusion of the renminbi in the SDR could bring substantial benefits in terms of representativeness, efficiency and stability.

Agnès Bénassy-Quéré, Damien Capelle

French Exports: Is Price Competitiveness Responsible for Bad Performance

N°2011- 313, September 2011

France's on the world market is decreasing for 10 years. This decline is not specific to France: among the European countries, Germany is the only one managing to increase its world market share. Higher sales growth on each market characterizes the German export performance since the beginning of the 2000's. The potential demand of the different countries considering their sectoral and geographical position cannot explain these trends. Our estimates, using very disaggregated trade data, show that the decline in global market shares of France, as compared to Germany, cannot be explained by a deterioration in price competitiveness. The non-price factors, that is to say the perceived "quality" of products, account for much of the competitive differentials between European countries.

Antoine Berthou, Charlotte Emlinger

Going Beyond GDP – But How Far?

N°2011- 312, June 2011

Although economists have long stressed the limitations of using GDP to evaluate standards of living, the debate was recently reignited by the publication of the Stiglitz report. In 2006, the CEPII proposed an indicator incorporating certain social data items, in terms of equivalent incomes, such as leisure time,

poverty associated with unemployment, longevity and size of households; this indicator takes also account of inequalities, exhaustion of natural resources, deterioration of the environment and consumption of fixed capital. In this Letter, we propose to update this indicator and above all to extend it to cover the major emerging countries. Our calculations reveal significant corrections. Generally speaking, however, aside from the fact that the size of families is now taken into account, the various corrections applied make hardly any difference to the country rankings. Overall, the same countries still suffer from low income per inhabitant, serious inequalities, a high death rate and a lack of time devoted to leisure activities.

Marc Fleurbaey, Michel Fouquin, Guillaume Gaulier

Can Immigration Save Our Social Protection System?

N°2011- 311, June 2011

In the early 2000s¹, replacement immigration was advocated as an answer to the forecast population decline (in particular that of the working population). On top of this quantitative objective came, at the same time, the further ambition of qualitative control of inflows: selective immigration. One of the arguments put forward to support this change of direction in the migration policy was a bigger net contribution to public finance by skilled immigrants compared with that of unskilled immigrants². Thus, by limiting the population ageing process, immigration could help reduce the associated tax burden, particularly if migration policy is selective. Using a computable general equilibrium model, this letter assesses the contribution of migration policy to the reduction in social protection financing needs, in the context of the population ageing process. Stopping immigration from 2010 would lead to an increase in these financing needs of 1.3% by 2050. A more proactive migration policy (a doubling of the average net annual flow) would reduce the tax burden of ageing but at the expense of considerable demographic changes. The relative gain achieved by a selective migration policy is temporary and disappears over the long term.

Xavier Chojnicki, Lionel Ragot

Capital Controls: A Time For Pragmatism

N°2011- 310, April 2011

In February 2010, a Discussion Note from the IMF acknowledged that capital controls have a place among the instruments governments can use when faced with large capital inflows. This is a decisive change of tack on one of the most controversial issues in the history of the IMF. In any event, it is the result of shockwaves from the global financial crisis and the need for regulation that this crisis produced. Significantly, an official Fund document released on 5 April 2011 proposes a new classification of 'capital flow management' instruments, where capital controls are depicted less as barriers to international movements than as specific regulatory tools.

Agnès Chevallier

FORTHCOMING

Industrial Policy and Competitiveness

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