The CEPII NEWSLETTER

n° 2 - 2nd semester 94

CENTRE D'ÉTUDES PROSPECTIVES
ET D'INFORMATIONS INTERNATIONALES

FOCUS

The Search for Stability in the International Monetary System

An appropriate functioning of the International Monetary System requires a combination of flexibility, stability and predictability. To attain such seemingly incompatible goals, and overcome the scepticism of the financial markets, the System would need to rely on the network of increasingly independent central banks, cooperating in the formulation of overall monetary policy.

When governments let their currencies float more than twenty years ago, they hoped that this *laisser-faire* stance would permit them to concentrate on domestic policy objectives, and let the capital markets take care of the International Monetary System (IMS). But the self-regulation of markets has been deficient, even if it has resolved the problems that led to the collapse of Bretton Woods.

Maintaining international liquidity was a major concern in the Bretton Woods era, and also led to the creation of SDRs, which was an essentially official action. Since then, however, ensuring liquidity has become the prerogative of the markets. Fears of a global shortage have receded, as supply is elastic, while demand drives market conditions. But, this flexibility has been achieved at a cost of great uncertainty and significant instability, of which the Third World debt crisis was but the most spectacular example. Indeed, the amount of new liquidity a country can obtain depends on market judgements of the sustainability of its debt. These can vary abruptly, leading to brutal and belated constraints. In short, market discipline may lead to violent changes in liquidity, and occasional crises.

Yet exchange rate flexibility is essential if real shocks are to be absorbed by countries whose internal price structures adjust to international constraints with difficulty, such structures being determined by heterogeneous labour markets, and divergent 'mechanisms' for the distribution of income. But, adjustment has also become more uncertain, as exchange rates are subject to capital movements between currencies. These movements may amplify discord over economic policies, or may take time to respond to contradictory information. The former leads to the kind of exchange rate distortions which characterised the years 1981 to 1985, when the Reagan administration allowed massive public deficits to develop, as Japan and Germany pursued tough fiscal adjustment programmes. The latter leads to strong exchange rate fluctuations, which have prevailed since the failure of the Louvre accord.

A successful IMS would need to permit real adjustements between countries.

A successful IMS should manifest macroeconomic flexibility with respect to real adjustments between countries. It should also allow market expectations to be based on the predictability of actions undertaken mutually by governments. Flexibility means the capacity to carry out smooth adjustments in the relative prices between countries, in order to absorb real, asymmetric shocks.

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Floating exchange rates meet this criterion best. Stricter exchange rate rules might also work, provided they include escape clauses permitting exchange rates to be changed under exceptional circumstances, without the markets calling into doubt official commitments to stability.

But, flexibility requires more than just choosing an exchange rate regime; such as setting target zones. The responsibility for adjustment between countries must be clearly defined without ambiguity, and without conflict when the accord has to be defended. This was not the case of the Louvre accord in February 1987, which did not contain operating rules for adjustment. The subsequent fall of the dollar constituted a dilemma for governments: should the dollar be defended by a fall in German interest rates, or a rise in American rates? Conflict between these two options was the immediate cause of the October 1987 stock market crash. In contrast, the gold standard was more than a fixed exchange rate system. It was a universal, nominal setting of the international price of gold, which made adjustments more symmetrical and automatic, and which determined the overall orientation of monetary policies.

Predictability requires that monetary rules are robust and well understood by the markets. Three conditions must be met for such rules to be robust enough to ensure the overall stability of the IMS: i) monetary policy objectives have to be compatible, to reduce conflicts in macroeconomic policies that are the greatest cause for exchange rate instability; ii) an international anchor should indicate the common direction of monetary policies, and; iii) the central banks should set up a collective insurance system to deal with speculative attacks, when exercising an escape clause is not judged opportune. Together, these conditions should favour the convergence of market expectations with respect to the intentions of the monetary authorities. But, how are these characteristics to be embodied into a market-led monetary system?

Central bank independence would be the key to a stable, predictable IMS, acceptable to the financial markets.

A monetary system that is placed under the dominant influence of the capital markets must be structured by institutions whose credibility is approved by the markets, and accepted by governments. This would be the case for independent central banks. The principle of independence is the pursuit of robust monetary policies, which in turn are essential instruments of an international anchor, and without which the IMS cannot achieve the required level of predictability. However, this principle has to be extended geographically, and the respective prerogatives of central banks and governments must be consolidated.

International accords and the definition of exchange rate regimes are an integral part of monetary sovereignty, and are hence governmental prerogatives. Yet, central banks should be responsible for all domestic and foreign aspects of monetary policy. Objectives defined jointly by independent central banks and pursued continuously would then provide compatible anchors for the major currencies. Exchange rates could then remain flexible, for asymmetric shocks to be absorbed. Indeed, the impact of capital movements should tend to be stabilising. Moreover, short term cooperation between central banks to set interest rates and to stave off speculative attacks would be more effective, as they would be built on a clearer policy base.

What factors would lead the monetary authorities to pursue this path? After all, such coordination requires that independent bodies accept to limit their own power over monetary policy to maintain the overall status of monetary stability as a public good. That is why the suggestions put forward here aim to set out how an international monetary constitution could emerge. Historically, this is not new, as the gold standard was a monetary constitution progressively formed during the last third of the 19th Century.

For a more favourable attitude to change to emerge, a higher, common goal must be perceived which would overcome the myriad of socio-economic considerations leading to discretionary, national policies. The move towards European Monetary Union could help. It will reduce the number of monetary authorities carrying out separate policies. It will also reinforce the idea of independence. Furthermore, it considerably raises the degree of symmetry in competition between currencies. Alternatively, financial instability stemming from discretionary and discordant national policies may become so great that it would prevent the objectives of such policies from being achieved. The time has thus come to build a rational, global constitutional framework. This should include new economic powers taking on systemic importance, and should also be based on a revival of multilateral surveillance within the IMF.

Michel Aglietta

FOR FURTHER INFORMATION SEE:

- '50 ANS APRÈS BRETTON WOODS', SPECIAL ISSUE, *ECONOMIE INTERNATIONALE*, NO 59, 3RD QUARTER 1994
- 'QUE PEUT-ON ATTENDRE DU SYSTÈME MONÉTAIRE INTERNATIONAL?', M. AGLIETTA AND AL., *LA LETTRE DU CEPII*, NO 128, OCTOBER 1994
- 'THE INTERNATIONAL MONETARY SYSTEM: IN SEARCH OF NEW PRINCIPLE', M. AGLIETTA CEPII WORKING PAPER, NO 94-11, SEPTEMBER 1994.

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FRANCE

RESEARCH SUMMARY

A New Pattern in Trade between Eastern and Western Europe

Trade from the central and east European countries to the European Union is growing rapidly, helped by the relocation of production by western companies to central Europe in particular. This article looks at the expansion of exports from central and eastern Europe, their changing structure, and the emerging trade specialisations that distinguish the central and east European countries amongst each other. Lastly, the article examines competition between these countries and developing regions exporting to the European Union.

The re-deployment of foreign trade by the central and eastern European Countries (CEEC), since the collapse of COMECON, has demonstrated that the insertion of these countries into the world economy is taking place mainly in Europe. The deepening of commercial links with the European Union (EU), since the end of the 1980s, marks a return to the 'natural geography' of their trade, as simulated by gravity models. Nevertheless, these trade flows are still far below the potential levels usually assigned to them. Their future development hinges on the capacity of the CEEC to maintain the brisk pace of their growth in exports, and hence renew their industrial specialisations and find their true comparative advantages.

The sectoral composition of CEEC exports to the EU is still largely a result of the trade distortions inherited from the period of integration under COMECON. But structural changes since 1989 are already visible. These suggest that the countries of central Europe (Hungary, the Czech Republic and Poland) are succeeding in diversifying their industrial exports, which increasingly differentiates them from the Balkan countries (Bulgaria and Romania).

To evaluate the strength of the changes underway, as well as the mid- to long term outlook for CEEC exports to the EU, we began by examining the legacy of the 1970s and 1980s. On the eve of the transition, the CEEC were faced with a European trade record that had been worsening steadily since the mid-1970s: their share in EC imports fell from 3.6% in 1975 to 2.8% by 1988. The qualitative deterioration in the sectoral structure of their exports reinforced this marginalisation: the greatest share losses were recorded in high value-added sectors like capital equipment, while the most resilient sectors were in basic manufactures and primary products. Their export specialisations were characterised by low levels of transformation and a high content of raw materials, including energy, from cheap Soviet sources. Such exports thus did not, on the whole, reflect their real comparative advantage. At the same time, the CEEC were losing out to developing countries in trade of labour intensive products, like textiles.

The acceleration of their trade to the EU, since 1989, constitutes a spectacular reversal of these trends. Favoured by institutional measures liberalising trade, exports from the CEEC are growing more rapidly than exports from the EU's other trade partners. Between 1988 and 1993 their exports of manufactured products to the EU rose by a factor of 2.3, bringing their percentage share in EU imports up from 2.6% to 4.4%. Though some of these sectoral advances are based on inherited trade structures, others indicate the emergence of new export capacity. Traditionally labour intensive industries (clothing and furniture) and heavy, energy intensive industries (metallurgy) have participated in the export expansion. But dynamic machinery industries (machinery, transport equipment, and electrical equipment) have also played a role, thus beginning to reverse the two-decade decline. This latter phenomenon clearly improves the export outlook for the region.

Within these overall trends, two country groups may be identified: the countries of central Europe (Hungary, Poland and the Czech Republic) and the Balkan countries (Bulgaria and Romania). The former have developed new export capacity in machinery, electrical and transport equipment, whereas the latter are still much more dependent on highly labour intensive industries (textiles, leather goods and furniture). Table 1 shows the difference

TABLE 1: INDICATOR OF THE RELATIVE SPECIALISATION OF CEEC EXPORTS TO THE EC (CEEC TOTAL = 100), 1993.

	Bulgaria	Romania	Czech Rep.	Slovakia	Hungary	Poland	CEEC
Food & Agriculture	182	47	45	32	174	109	100
Raw materials	49	96	122	193	4	130	100
Chemicals	135	52	118	123	120	80	100
Textiles, clothing & leather	133	204	66	94	100	95	100
Wood, paper & glass	69	57	132	158	64	102	100
Metallurgy	82	59	113	164	70	109	100
Machinery	56	43	128	76	117	95	100

SOURCE: EUROSTAT, COMEXT.

TABLE 2: INDEX OF THE SIMILARITY OF EXPORTS TO THE EUROPEAN UNION (FINGER INDEX) (1)

	Hungary		Poland		Ex-CSSR		Bulgaria		Romania	
	1988	1992	1988	1992	1988	1992	1988	1992	1988	1992
Hungary										
Poland	0.65	0.66								
Ex-Czechoslovakia	0.61	0.65	0.58	0.67						
Bulgaria	0.67	0.67	0.56	0.68	0.61	0.59				
Romania	0.60	0.57	0.54	0.61	0.53	0.56	0.47	0.59		
Asian NIEs (2)	0.47	0.55	0.41	0.43	0.80	0.82	042	0.48	0.39	0.39
North Africa (3)	0.43	0.40	0.46	0.44	0.30	0.33	0.36	0.46	0.43	0.53

(1) THE FINGER INDEX: $S(ab,c)=\left\{\sum Min\left[X_i(ac), X_i(bc)\right]\right\}$ WHERE $X_i(ac)$ IS THE SHARE OF EXPORTS IN PRODUCT i FROM COUNTRY a TO COUNTRY c; $X_i(bc)$ IS THE SHARE OF EXPORTS IN PRODUCT i FROM b TO c.

(2) SOUTH KOREA, TAIWAN, INDONESIA, MALAYSIA AND THE PHILIPPINES.

(3) ALGERIA, TUNISIA, MAROCCO.

SOURCE: EUROSTAT, COMEXT

in specialisations, measured with respect to the region's average. Differences in wage costs will probably increase this differentiation in the future: the average industrial wage in industry is three times higher in Hungary ($240 per month in 1993), than in Romania ($80), and nearly twice as high as in Bulgaria ($137). These wage spreads will encourage the central European countries to move up market, which should be favoured by their integration into the production networks of trans-national companies. This in turn may lead to a greater differentiation of specialisations, and hence to a progressive reduction in competition among the CEEC in sensitive sectors. The central European economies are already moving towards an intra-industry trade model.

The central European countries are moving towards the trade structure of the Asian NIEs, whereas the Balkan countries increasingly resemble the developing countries.

Competitive pressure on west European industry is thus bound to change and diversify. The export structures of the central European countries are converging and are more in line with those of the Asian countries. In contrast, Bulgaria and Romania are increasingly resembling the developing countries (represented by North Africa in table 2).

The insertion of east European countries into the production networks of western firms is playing a decisive role in the evolution of CEEC exports. Our research reveals the major impact that certain types of industrial relocation - carried out by EU companies - have had on the manufacturing exports of Hungary, Poland and former Czechoslovakia, since 1988. This work is based on EU trade statistics, which identify precisely the trade flows that arise from outward processing traffic. Between 1988 and 1993, European companies developed sub-contracting arrangements with the CEEC on a massive scale, mainly within these countries. As a result, sales from such operations accounted for one fifth (on average) of the manufacturing exports of these three countries to the EU. More specifically, clothing and electrical equipment exports have been substantially influenced by initiatives of western companies. Furthermore, trends in unit values bear out an improvement in the quality of such exports.

In contrast, the impact of foreign direct investment on the export capacity of these countries is difficult to measure, given the lack of data.. Nevertheless, in Hungary - where such investment has been concentrated most - foreign-owned companies accounted for nearly a third of exports, and contribute substantially to the existence of company networks that are outward oriented, in various industrial sectors.

Preparatory work allowing these countries to join the European Union began during the course of 1994, and constitutes a logical continuation of present developments, which should accelerate industry and trade restructuring in the region. This will clearly have further implications for the EU's southern trading partners, especially in the Mediterranean.

Françoise Lemoine

FOR FURTHER INFORMATION SEE:

- 'THE REINTEGRATION OF THE CEEC INTO EUROPEAN TRADE', F. LEMOINE, *CEPII WORKING PAPER*, No 94-15, DECEMBER 1994
- 'L'EUROPE CENTRE-ORIENTALE ET L'UNION EUROPÉENNE : DU COMMERCE À L'INTÉGRATION', F. LEMOINE, *LA LETTRE DU CEPII*, No 127, SEPTEMBER 1994

ON THE RESEARCH AGENDA

A NEW MIMOSA MODEL IN 1995

The annual multicountry macro-econometric model MIMOSA has been used by the OFCE (Paris) and the CEPII (Paris), since 1989 to model aspect of the world economy, from a medium to long-run perspective. Until now, the world was divided into six major countries (G7, Canada excepted), four industrialized zones ('Other EU', 'Rest of western Europe', Other OECD', and 'Asian NICs'), four developing regions, and the east European region, plus the FSU. International trade is broken down into four product categories, notably manufactures, and two service groupings. The six major economies are described using fairly detailed neo-Keynesian models, which embody a putty-clay production function for manufacturing, and describe agent accounts (taxation, social security and interest flows) in some detail. The smaller models of the four industrialized regions are not disaggregated by sector. For the five remaining regions, the main purpose of the models is to describe how their foreign trade reacts to shocks in the world economy.

A re-estimated and revised version of the MIMOSA model, and a new, medium-term forecast of the world economy will be completed by mid-1995. In the new version, the geographical disaggregation is more detailed for Europe. While the size of the major country models has been slightly reduced, three new zones now cover the smaller EU countries: the less developed countries (Greece, Ireland, Portugal and Spain); the richer, northern countries (Belgium, Denmark, Luxemburg and the Netherlands); the new members of the EU (Austria, Finland, Sweden); and Norway. The new version of MIMOSA will also include a small model for eastern Germany, linked to the west German model. Special attention is paid to major structural changes in the international trade due to the collapse of the CMEA, the emerging economies in Asia, and the enlargement of the EU. Lastly, simple monetary policy rules and the use of uncovered interest rate parities to explain exchange rates, will also be included in the new model.

Henri Delessy

FRENCH AND GERMAN PRODUCTIVITY LEVELS IN MANUFACTURING

The major problem with international comparisons of output and productivity levels is finding a suitable conversion factor to express output in a common monetary unit. This study on France's and west Germany's manufacturing sector is based on the so-called 'industry-of-origin' approach (see *Economie internationale* No 60), where producer price ratios are used as conversion factors for value added. These producer price ratios are based on ex-factory unit values from national production censuses. This avoids the problems associated with purchasing power parity calculations.

The relative level of producer prices thus calculated suggests that France has had a competitive price advantage of about 10% over Germany, since about 1987. This price gap may compensate the often-evoked, German non-price competitiveness. Yet, despite this gap for manufacturing as a whole, there is a remarkable convergence in relative price levels across industries.

By comparison, output and factor of production levels have contrasted significantly during the last two decades. Whereas the 1970s saw France catch up with Germany, the 1980s reversed most of these gains. In the beginning of the 1990s, the relative size of French manufacturing was again at almost the same level as 20 years before, i.e. about half the west German level.

Since 1970, joint factor productivity has been almost identical in both countries, though its two components have shown a clear divergence. Until the 1980s, labour and capital productivity were similar. Since then, French labour productivity has become about 10% higher and capital productivity about 15% lower than in Germany. This evolution is closely linked to a much stronger substitution of labour by capital in France. French capital intensity in manufacturing rose increasingly above Germany's, despite lower labour costs and higher real interest rates in the late 1980s. This may be a major reason for the higher French unemployment rate.

Michael Freudenberg
Deniz Ünal-Kesenci

THE TRANSMISSION CHANNELS OF MONETARY POLICY

The transmission channels of monetary policy have generated numerous studies which have recently focused on the 'so called' credit channel. Much empirical investigation has been carried out in the United States, but little exists for the other countries. That is why this project is carrying out an international comparison of the G5 countries. VAR models allow the effects of monetary shocks on relevant economic variables to be analysed. Impulse response functions show that the monetary and exchange rates channels seem more relevant than the credit channel in United States, Germany and Japan. The project has also derived interest rate reaction functions.

A related topic under examination is the correlation of interest rate spreads with future activity. This provides an opportunity for building advanced indicators. Recent studies have been most concerned with the term structure spread, which has been shown to have predictive power in most OECD countries. In this work, spreads built on bank interest rates are used and provide evidence that bank margin spreads, as well as spreads between bank loans and bonds, also have predictive capacity for real variables. The results are being interpreted in terms of credit supply effects.

Virginie Coudert
Benoît Mojon

Recent Publications

ECONOMIE INTERNATIONALE, QUARTERLY

• No 60, 4 TH QUARTER 1994, 155 P.

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D. Pilat

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M. Freudenberg, D. Ünal-Kesenci

• *'La productivité du secteur manufacturier français en comparaison internationale'*,
B. van Ark, R. Kouwenhoven

• *'La productivité du travail dans les services en France et aux Etats-Unis'*,
N. Mulder

• *'L'efficacité apparente du capital dans les grands pays de l'OCDE'*,
G. Cette

• No 59, 3RD QUARTER 1994, 255 P.

FIFTY YEARS AFTER BRETTON WOODS, SPECIAL ISSUE

• *'L'organisation de l'économie internationale depuis Bretton Woods : un panorama'*,
B Eichengreen, P. B. Kenen

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J.-M. Jeanneney

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A. Chevallier, I. Bensidoun
No 130, DECEMBER 1994.

• *'Lassurance-maladie pour tous les américains : l'échec d'une réforme'*,
J. Baude,
No 129, NOVEMBER 1994.

• *'Que peut-on attendre du système monétaire international ?'*,
M. Aglietta, A. Bénassy,
P. Deusy-Fournier, J. Pisani-Ferry,
No 128, OCTOBER 1994.

• *'L'Europe centre-orientale et l'Union européenne : du commerce à l'intégration'*,
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No 127, SEPTEMBER 1994.

• *'L'internationalisation des services bancaires'*,
L. Nayman,
No 126, JULY-AUGUST 1994.

• *'Prix et productivité en France et en Allemagne'*,
M. Freudenberg, D. Ünal-Kesenci,
No 125, JUNE 1994.

• *'Cent ans de commerce extérieur français'*,
P. Villa,
No 124, MAY 1994.

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FF 340 annual subscription in Europe, FF 425 outside Europe.
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BOOKS, BY CEPII RESEARCHERS

• *L'ÉCONOMIE MONDIALE 1995*,
M. Fouquin, D. Pineye (eds.),
125 P., COLL. REPÈRES, LA DÉCOUVERTE, PARIS, 1994, FF 45.
This is an annual CEPII publication outlining major events in the world economy, for a wide readership. The 1994 version has been published in Turkish: *1994 EKONOMISI*, COLL. CEP ÜNIVERSITESI, ILETISIM YAYINLARI- LA DÉCOUVERTE.

• *LA NOUVELLE ECONOMIE CHINOISE*,
F. Lemoine,
126 P., COLL. REPÈRES, LA DÉCOUVERTE, PARIS, 1994, FF 45.

CEPII WORKING PAPERS

• *'Chômage et salaire en France sur longue période'*
P. Villa,
No 94-13, NOVEMBER 1994.

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No 94-12, NOVEMBER 1994.

• *'The International Monetary System: in Search of New Principle'*,
M. Aglietta,
No 94-11, SEPTEMBER 1994.

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M. Freudenberg, D. Ünal Kesenci
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• *'La réunification allemande du point de vue de la politique économique'*,
Agnès Bénassy, P. Villa,
No 94-09, SEPTEMBER 1994.

• *'Commerce international, emploi' et salaire*,
O. Cortes, S. Jean,
No 94-08, AUGUST 1994.

Events: Seminars and Meetings

• **Financial Reforms and Macroeconomic Stabilization in China**
Prof. Dong Fureng (Chinese Academy of Social Sciences, National People 's Congress)
1 December 1994

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M. Aglietta (University of Paris X, CEPII), A. Bénassy (University of Cergy-Pontoise, CEPII), P. Deusy-Fournier (University of Paris X, CEPII), P. Jacquet (IFRI), J. Pisani-Ferry (CEPII)
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13 July 1994

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8 July 1994

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M. Freudenberg (CEPII),
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29 June 1994

• **International Trade, Employment and Wages**
CEPII Workshop, with the participation of R. Z. Lawrence (Harvard University)
24 June 1994

• **Market Services and European Integration**
P. Buigues (European Commission), J. Gual (IESE, Barcelone), F. MacGovan (University of Sussex), H. Goulletquer (Banques populaires), J.- P. Puig (Department of Transport), A. Sapir (Institute of European Studies, Brussels)
21 June 1994

• **French-Japanese Conference, high level seminar coorganised in Paris by the CEPII and the Foundation for Advanced Information and Research (FAIR, Tokyo)**
6 May 1994

News in Brief

• Lionel Fontagné, Professor of International Economics at the University of Paris I (Panthéon-Sorbonne), was appointed Scientific Advisor to the CEPII in October 1994.

• Agnès Bénassy and Henri Delessy are undertaking a research project on exchange rate policies in Asia, in collaboration with the Association pour l'Union monétaire de l'Europe. The project is supported by the French Planning Agency.

• Olivier Cortès and Sébastien Jean have been commissioned by the French Ministry of Labour to carry out an empirical study on the impact of international trade on employment.

• Michel Aglietta has been invited during the first half of 1995 by the Federal Reserve Bank of New York to participate as a visiting professor in its research work on monetary issues.

• Michael Freudenberg and Deniz Ünal-Kesenci are currently working on a project concerned with trade in intermediate products between the Member States of the European Union, EFTA, the United States and Japan. The project is supported by Eurostat.

• In June 1994, the Scientific Committee of *Economie internationale* was established. Its members include: Patrick Artus (Caisse des dépôts et consignations and University of Paris-IX); Roumen Avramov (Agency for Economic Coordination and Development, Sofia); Jean-Claude Berthelemy (Development Center, OECD); Lorenzo Bini Smaghi (European Monetary Institute, Frankfurt); Christian de Boissieu (University of Paris-I and Chamber of Commerce, Paris); Robert Boyer (CEPREMAP, Paris); Gang Fan (Academy of Social Sciences, Beijing); Jean Philippe Gaudemet (French Planning Agency); Daniel Gros (CEPS, Brussels and University of Frankfurt); Alexander Italianer (European Commission); Alexis Jacquemin (European Commission and Catholic University of Louvain); Paul Robert Masson (IMF); Patrick Messerlin (IEP, FNSP); Mohammed Fouzi Mourji (Hassan II University, Casablanca); André Sapir (University of Brussels); Niels Thygesen (University of Copenhaguen); Charles Wyplosz (INSEAD, Paris); John Zysman (University of California, Berkeley).

• G. Ruffolo, L. Spaventa, P.C. Padoan and B. Olivi from Centro Europa Richerche (CER, Rome) visited the CEPII in July 1994 to discuss the possibilities of developing cooperations between the two institutes.

Forthcoming

• The special issue of *Economie internationale* to commemorate the 50th anniversary of the Bretton Woods conference (No 59, 3rd quarter 1994) will be published as a book in early 1995, by the publishing house Economica.

• *Economie internationale* will also be publishing a special issue on central and eastern Europe in 1995 (No 62, 2nd Quarter). The issue will cover the current state of the transition and the outlook for integrating the CEEC into the EU.

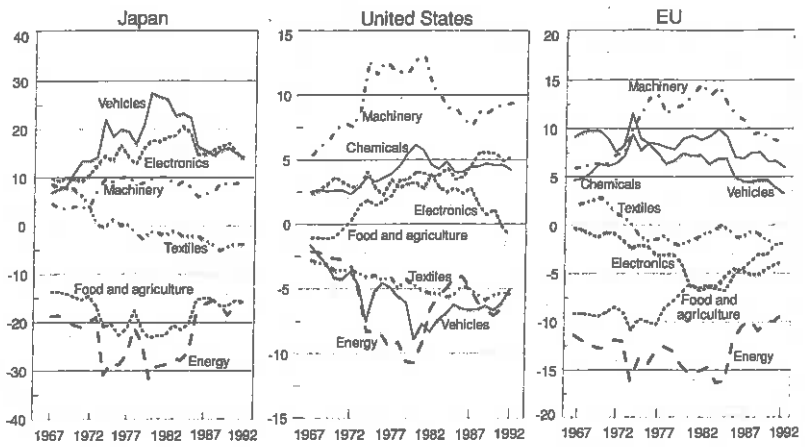
• The CEPII and the ECARE (European Centre for Advanced Research in Economics, Brussels) plan to co-organise a conference on international trade and employment to be held in Paris in June 1995.

CHELEM DATABASE

Strengths and Weaknesses of the Major Poles of the World Economy

The CHELEM database includes an indicator of each industry's contribution to a country's trade balance, which reveals the comparative advantage of the industry[1]. The adjacent graphs show, for example, how Japan's trade specialisation has gradually challenged the position of the older, industrialised countries. Japan's main strengths are in electronics and road vehicles, though trade barriers in Japan's markets have more recently led to a certain relocation of production to these markets. However, the machinery sector retains its comparative advantage. In contrast, the advantage in textiles has disappeared, while other basic sectors (energy, as well as food and agriculture) manifest a disadvantage, due largely to Japan's lack of raw materials.

MAIN COMPARATIVE ADVANTAGES AND DISAVANTAGES IN THOUSANDTHS OF GDP



NB: CHANGE IN SCALE ON Y-AXIS. SECTORS WITH SMALL VALUES ARE NOT SHOWN
SOURCE: CHELEM-CEPII

Meanwhile, the American economy has lost some ground in electronics, with the revealed comparative advantage of the sector falling since the mid-1980s. In other sectors, the US comparative disadvantage has widened, notably in road vehicles and textiles. Machinery and chemicals, however, have reinforced their comparative advantage, as has the food and agriculture sector.

In the European Union, chemicals and machinery have also maintained their comparative advantage, though an erosion for the latter is discernible. Otherwise, significant variations have affected food and agriculture, textiles, vehicles and electronics. In the first of these sectors, the revealed comparative disadvantage has been reduced by the Common Agricultural Policy, whereas the losses experienced in the other sectors result from the rise in Asian exports.

Colette Herzog

(1) If there were no comparative advantage or disadvantage for any industry k *(in a given country), then the total trade surplus or deficit would be distributed across all industries 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. Expressed in thousandths of GDP, it is given by:*

$$\left(\frac{1000}{Y}\right)\left[(X_k - M_k) - (X - M)\left(\frac{X_k + M_k}{X + M}\right)\right]$$

The CHELEM (Harmonised Accounts on Trade and the World Economy) is a unique database, providing harmonised, long term data on trade, growth and demographics, stretching back to 1967 and to 1960 for some series. The database breaks down the global economy into 53 countries/geographic regions, and 71 product categories. Also included are data on PPPs and exchange rates. The database is bilingual (French-English), very 'user friendly', and is available on CD-ROM.
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CEPII
CENTRE D'ETUDES PROSPECTIVES ET D'INFORMATIONS INTERNATIONALES

- *Publisher:* JEAN PISANI-FERRY, *Director of the CEPII*
- *Editors:* MICHAEL FREUDENBERG and NICHOLAS SOWELS
- *Graphic Concept:* PIERRE DUSSER
- *DTP:* HÉLÈNE CROS

The CEPII Newsletter is a free publication, produced by the CEPII, with the support of the German Marshall Fund of the United States (Washington) and the *Direction des relations économiques extérieures* (Ministry of Economics, Paris). Copies may be obtained from Sylvie Hurion, tel: (33-1) 48 42 64 14.

The CEPII is entirely responsible for *the CEPII Newsletter*, and opinions expressed therein are those of the authors.

ISSN : 1255-7072. Printed by: Bialec S.A., Nancy, France.

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