The CEPII NEWSLETTER n°5 - 1st semester 96

CENTRE D'ÉTUDES PROSPECTIVES
ET D'INFORMATIONS INTERNATIONALES

Focus

The Transition Economies and the European Union's Eastward Enlargement

Since 1990, the debate over reforms in the transition countries and the enlargement of the European Union has underlined the importance of reducing income differentials between eastern and western Europe. Significant efforts still have to be made everywhere, but there is clearly an increasing divergence in economic fortunes throughout the region. If such trends continue, they will weigh heavily on Europe's future equilibrium, especially if the more advanced countries are rapidly integrated into the European Union, thus potentially crowding out the rest of the region from the inflow of resources.

The first years of transition saw recessions in the countries of central and eastern Europe cutting output by -25 to -40%. More recently, some countries have returned to growth, often of over 5%. Furthermore, such growth appears to be self-stabilising as the sharp fiscal crises of the years 1991-93 are being overcome, and disinflation is being pursued, while productivity gains remain high and real exchange rates are appreciating rapidly. In contrast, several years of falling output are being followed by slow microeconomic adjustment and strong inflationary pressures in the countries of the Balkans and the Former Soviet Union (FSU). This is weakening their social equilibria, on which any future growth will be based. These trends may undermine the legitimacy of reforms, as well as the position of the economic and political actors who have defended them.

Indeed, the increasing divergence within post-socialist Europe is likely to put pressure on the continent's equilibrium. It will also strain the European Union's regional cooperation policy, and could in the long run affect the conditions of overall convergence. Such a situation results partly from the internal constraints facing the transition economies, on which outside actors have little influence: it is generally observed that countries which can make the best use of foreign aid are those that *a priori* require least aid. In contrast, financial and technical assistance, as well as trade liberalisation tend to have a limited impact on economic structures suffering from greater inertia. This is one of the principal reasons why membership of the Union should only be offered to those countries which have proved that they are able to benefit from it. Precipitating integration may otherwise lead to a relaxation of the drive to reform as *rentier* behaviour develops, or may even lead to the crowding out of agents who have already adapted to strong constraints of competitiveness.

Initiatives by the European Union could 'top-up' growth of new members, hence exacerbating divergence in the CEECs.

That said, the various initiatives of the European Union may themselves exacerbate divergence, over and above the specific paths taken by the transition countries since 1990. More specifically, if a (likely) 'first wave' of enlargement takes place within the next ten years, benefiting the more

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advanced countries, then this will inevitably have the effect of 'topping-up' already fast rates of growth, and will hence accentuate the divergence between the 'insiders' and 'outsiders'. Indeed, the opposite would indicate that integration had failed, at least from an economic point of view. Two effects must therefore be distinguished. First is the autonomous acceleration of new member-states, whose growth will be topped-up by integration into the Union, as has been the case with Spain and Portugal. Second are the possible risks of a diversion of resources, which would favour 'insiders' at the expense of 'outsiders', if crowding out were to follow in the wake of the dynamics of indigenous change. Access to Union funding (Structural Funds, the Common Agricultural Policy, etc.) should not lead (at least directly) to a redistribution of resources in eastern Europe, as in a zero-sum game.

It must therefore be asked whether a more balanced approach is possible, or whether discrimination between candidates for membership will inevitably lead to a worsening outlook for the less advanced. There are three reasons suggesting a pessimistic answer to this question.

To begin with, there is a strong risk that foreign direct investment will concentrate on the first members of the Union, due (amongst other things) to the guarantees of integration within the Single European Market, the rapid convergence of institutions and legal systems, and the prospects of sustained domestic growth. In contrast, countries in the second group will likely only be able to capitalise on their low labour costs, putting them into direct competition with the developing world. This may lead to a quality hierarchy in trade with these countries, rather than the more dynamic and more diversified international trade pattern of the central European economies, based on specialisation.

Private foreign direct investment is likely to concentrate in the 'first wave' of new members.

At the same time, the realistic prospects of relatively rapid membership should encourage economic and political agents' expectations to evolve rapidly, and should hence accelerate the adjustment of behaviour by companies, as well as banks and public administrations. Indeed, such a 'concentration' of collective efforts is already to be witnessed in central Europe, and will likely raise the present benefits of reform, especially as these are held to be promises made about the near future. By comparison, where such factors are weaker, the legitimacy of the transition risks being eroded, while the temptation to relax reform efforts may rise.

Lastly, a third form of crowding out may follow on from the (currently underestimated) complexity of the enlargement process itself, which could lead to the Union's collective activities being over-burdened, and to its institutions being submerged with 'systemic noise'. This might lead to a reduction in the Union's resources needed to prepare for the 'second wave' of membership, thus possibly pushing it even further into the future. Unless the tangible content of membership is cut, which would be in no-one's interest, the eastward enlargement of the Union is likely to prove far more complex than the integration of Portugal, Greece or Ireland, countries whose initial economic structures were much closer to those of existing members. In other words, the efforts needed to adapt to the constraints of the Single Market may consume so much time and energy, both in Brussels and in member countries, that this in itself will likely push back the launching of the second wave of membership, while stripping it of its credibility.

Integration of the 'first wave' of new members is likely to be complex, and risks pushing back the membership of others.

Ultimately, the European Union, having contributed to the success of the first phase of transition reforms, may put off integration of countries that are not able to close the development gap sufficiently themselves. Thus, the internal constraints of transition economies and of the Union may, along with the behaviour of private agents, lead to an over-concentration of resources in a limited number countries, which would in turn be detrimental to the overall equilibrium of the region.

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FOR FURTHER INFORMATION SEE:

- 'CREDIT CRISIS AND THE ROLE OF BANKS DURING TRANSITION: A FIVE-COUNTRY COMPARISON', J. SGARD, *CEPII WORKING PAPER* NO 96-08, JULY 1996.
- 'LE FINANCEMENT DE LA TRANSITION EN EUROPE CENTRALE ET BALKANIQUE : UNE COMPARAISON DE SIX ÉCONOMIES', J. SGARD, *ECONOMIE INTERNATIONALE*, NO 62, 2ND QUARTER 1995.
- 'LE DYNAMISME DES EXPORTATIONS DES PECO VERS L'UNION EUROPÉENNE', F. LEMOINE, *ECONOMIE INTERNATIONALE*, NO 62, 2ND QUARTER 1995.
- 'CEEC EXPORTS TO THE EC: COUNTRY DIFFERENTIATION AND COMMODITY DIVERSIFICATION', F. LEMOINE, *CEPII WORKING PAPER* NO 94-15, DECEMBER 1994.

RESEARCH SUMMARY

The Transmission of Monetary Policy in Europe

In most industrialised countries, central bank monetary procedures have converged on the control of money market interest rates. However, despite the generalised use of this instrument, the interaction with the real economy is complex, and monetary policy does not act through a single transmission channel. In fact, several different channels are commonly considered in the economic literature: money, credit, and the exchange rate. The relative importance of these different channels conditions the effectiveness of monetary policy, and it seems likely that they may differ from one country to another, or even from one period to another within the same country. Therefore, a certain monetary stance may have different macroeconomic consequences from one country to another. This issue is especially important within the context of Stage III of EMU. If a common monetary policy is implemented, the likely effects of a change in interest rates need to be fairly similar from one country to another, or else unwanted distortions may follow.

This study investigates the effects of monetary policy in the nine countries of the European Union for which quarterly national accounts are available, in sufficiently large samples, namely: Austria, Denmark, Finland, France, Germany, Italy, the Netherlands, Spain, and the United Kingdom. It first reviews some key characteristics of the national financial systems, which may lead to divergence in monetary transmission across countries. Subsequently, identified-Vector Autoregression Models (VARs) are used for assessing the effects of monetary policy on economic activity. The issue of transmission channels is then addressed, especially in analysing a possible credit channel.

A first source of divergence stems from the way variations in the money market rate, which is set by the central banks, spread to other markets. For instance, a one percentage point change of the money market rate does not lead to a similar and instantaneous increase in the lending rate. Thus, the adjustment of bank rates for final borrowers to money market rate variations appears to be particularly slow in France, Denmark, and Finland, but very rapid in the United Kingdom. A second source of divergence comes from the fact that credit indexation practices vary greatly across Europe. For example, mortgage credits are accorded mainly at fixed rates in France and Austria, but are variable in other countries. Ease of access to credit is a third factor which also seems to lead to heterogeneity. This can be seen in the housing credit market, where minimum down-payment conditions range from 5 % in the UK, to 40 % in Italy. Divergence may also stem from the different degrees of integration, of openness and dependence of the trade balance on exchange rate variations.

Access conditions to mortgage credits and the interest regimes of such credits vary substantially across Europe.

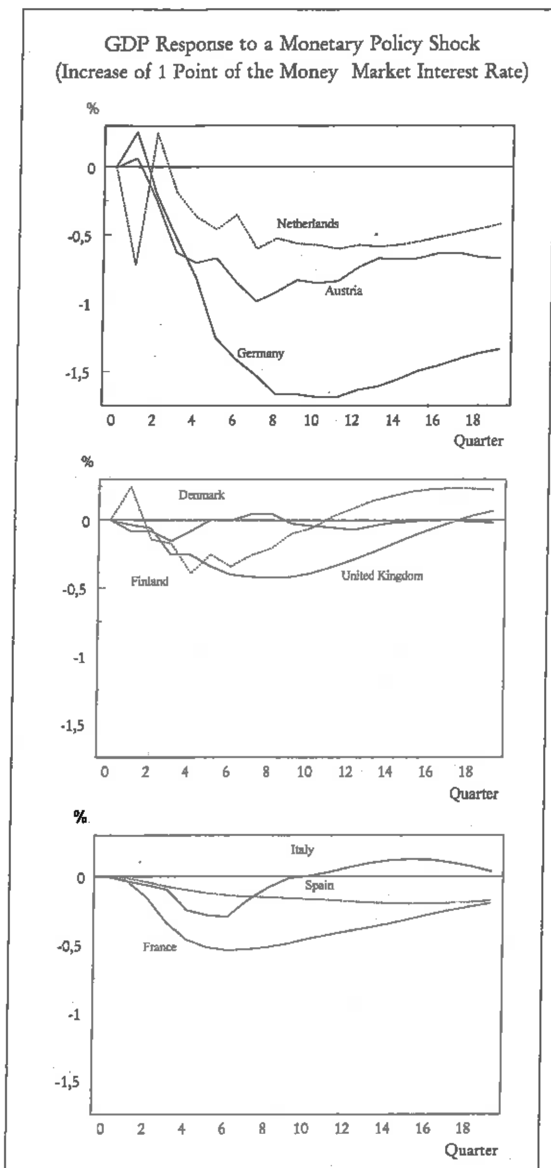
Several methods have been used in the economic litterature to evaluate the impact of variations in interest rates. Traditional, national macro-econometric models provide results which are difficult to compare from one country to another, because they are based on different specifications. Multinational macro-econometric models do not have such drawbacks, but their results depend largely on the modelling choices made. The VAR models meet these two objections as they are similar across countries, and are generally based on a minimal set of *a priori* assumptions about the functioning of the economies analysed. In particular, no constraint is generally imposed on the lag coefficients, but rather on long-term or instantaneous interactions.

The VAR models constructed here allow for the effects of an interest rate shock on real activity to be simulated in the nine European countries listed above. The money market rate is assumed to be the instrument of monetary policy in each country. In order to facilitate the comparison, the same identifying assumptions are made everywhere. They only restrict the contemporaneous interactions among macroeconomic variables, which are assumed to form a recursive system: monetary authorities are supposed to react instantaneously to the economic variables that are included in their reaction function. Conversely, monetary policy affects economic variables only with a lag of one quarter.

For each country the first model includes GDP, the consumer price index, the exchange rate to the Deutsche mark (or dollar for Germany), and a short term interest rate. The index for international export prices is added for taking into account world price movements.

Simulations show that a restrictive shock in monetary policy leads to a fall in GDP compared to the baseline (see graph). GDP starts falling immediately after the interest rate shock. The recessive impact appears to be particularly strong in Germany, and fairly similar in the other countries. The effects on production are generally transitory, and are absorbed progressively over the long term. The maximum impact is spread out over 1 to 2.5 years, depending on the country.

The reaction of macroeconomic variables to monetary policy impulses are generally considered as particularly strong and rapid in the United Kingdom, due to the indexation of debt on the



GDP Response to a Monetary Policy Shock (Increase of 1 Point of the Money Market Interest Rate)

short term bank rate. However, in these simulations, the size and lags of the GDP response differ little in the United Kingdom and in France. One explanation for this paradox may be found in price shifts, which follow the rise in interest rates. This is partly due to the fact that the retail price index in the United Kingdom includes mortgage interest rates. Thus, a rise in interest rates in the United Kingdom tends to increase rather than to decrease inflation. This moderates the rise in the real rate of interest, softening the impact on real activity. The delays in the response of GDP to monetary shocks are longest in Germany, with the maximum impact occurring two and a half years after the shock. GDP trajectories generally depend on the pattern of interest rate shifts after the initial shock, shifts which then become endogenous via the intermediation of the Bundesbank's reaction function. This affects the results of the simulations. For example, as increases or decreases in interest rates are generally carried out very gradually in Germany, they also tend to be more persistent, their impact lasts over a longer time and so it is stronger.

Other VAR models have been used to distinguish the effects on the components of final demand and also to assess the importance of the different transmission channels of monetary policy. Contrary to what would be expected for very open economies, the exchange rate channel does not seem to reinforce the impact of monetary policy in most European countries. This may be explained by the fact that most of the countries in the sample are members of the EMS, with the management of exchange rates being carried out jointly with other countries, and hence counteracting variations in exchange rates stemming from monetary policy. Finally, some tests on the countries studied show that the credit channel could be effective (in Europe), as credit has a tendency to contract more than money, in the wake of a negative monetary shock. However, more detailed tests by institutional sector, for France and Germany, do not seem to confirm this hypothesis.

Recent empirical work has shown how bank practices vary across countries, even within the European Union. These empirical estimates using identified-VARs show that the main standard effects of monetary policy can be found in most European countries, and that responses and lags are similar across countries. However, the magnitudes may differ. Moreover, different bank practices and regulations across countries lead to some variations in the response of the components of final demand. For instance, in those countries where credit access for households is more restricted (e.g. Italy), monetary policy shocks seem to have less impact on residential investment. This is also true in countries like France, where preferential loans are still significant.

Some differences in the transmission of monetary policy may disappear with monetary union. This will be the case of the exchange rate channel, the intensity of which is linked to the openness of the economy, and also to the degree of commitment by monetary authorities to exchange rate targets. This may now typically constitute a source of divergence among European countries, but will immediately disappear with monetary union. However, other differences reviewed here may persist, at least for several years. Access to credit for example could ultimately be harmonised, as competition between European retail banks will be boosted by monetary union. But, convergence will take time.

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FOR FURTHER INFORMATION SEE:

- 'THE TRANSMISSION OF MONETARY POLICY IN THE EUROPEAN COUNTRIES', F. BARRAN, V. COUDERT AND B. MOJON *CEPII WORKING PAPER*, NO 96-03, FEBRUARY 1996.
- 'L'EUROPE EST-ELLE UNE ZONE HOMOGÈNE POUR LA POLITIQUE MONÉTAIRE?', F. BARRAN, V. COUDERT AND B. MOJON, *ECONOMIE INTERNATIONALE*, NO 65, 1ST QUARTER 1996.

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FRANCE

On the Research Agenda

FISCAL RETRENCHMENT REVISITED

In Europe, the deterioration of public finances and the preparation for monetary union make large-scale fiscal adjustments necessary. Keynesian theory indicates this will significantly dampen growth. However, recent research suggests that a return to debt sustainability can exert positive effects on private agents' demand, both directly, as it signals that taxes will not have to be raised, and indirectly via a drop in the risk premia on interest rates.

This project (conducted with reseachers at INSEE) examines the empirical evidence by selecting all large-scale fiscal adjustments, both expansionary and contractionary, in the OECD since the mid-1970s. It suggests that the output cost of fiscal retrenchment may not be proportional to the size of the adjustment effort, as is generally assumed in standard macroeconometric simulations. Yet the 'painless adjustment' fable is by no means prevalent, even though a number of countries have been able to control their public finances at relatively low cost.

The project investigates the reasons for such divergences, including: the situation of public finances when the adjustment is undertaken; the accompanying monetary policy; the extent and composition of the fiscal effort; as well as the size and openness to foreign trade of the country. Furthermore, research will test for possible selection bias as costly adjustments may be interrupted because of their dampening effects on the economy. Finally, consumption and investment behaviour of private agents are tested econometrically, to show up irregularities during the periods of adjustment.

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TRADE AND EMPLOYMENT: A GENERAL EQUILIBRIUM MODEL

The growing role played by a certain number of emerging countries has greatly affected international trade in manufacturing products over the last twenty years. This phenomenon is likely to be accentuated by the rapid growth of demographic giants like China and Indonesia. The present study sets out to analyse the future impact of this phenomenon on European labour markets.

Simulations rely on a computable general equilibrium model, comprising the European Community, a rest-of-the-world zone, and the emerging countries. These are characterised by wealth levels clearly below the OECD average, along with a rising share of world trade. Their economies are broken down into thirteen sectors, of which eleven are in manufacturing. Three production factors are also used, namely: capital, skilled labour and unskilled labour. Goods are also differentiated, using various levels of substitutability: goods produced by emerging countries are of a different nature to those produced in the developed countries. Given economies of scale, oligopolistic competition *à la* Cournot takes place in manufacturing sectors. Depending on the sector, adjustment to market variations occurs via the number of firms present and their size.

The reference scenario put forward here is based on a doubling of the relative size of the emerging countries. This shock has a positive impact on Europe's welfare, though the benefits are distributed unequally. Real wages for qualified labour rise by 0.7%, and real returns on capital increase by -0.1%. By comparison, real wages for unqualified labour fall by 0.1%.

The main conclusion is that the scale of these effects is small. This reflects the strength of mechanisms which restrain the impact of the growth in the emerging countries, including: product differentiation, sectoral entry barriers, general equilibrium constraints, and long term trade balance constraints.

Further research is presently based on: generating more detailed data at a sectoral level and for labour; rendering the effects of international competition endogenous in the production functions, and using a more realistic description of the labour market, especially concerning employment-wage elasticity.

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JAPANESE FOREIGN INVESTMENT IN ASIA

The relocation of Japanese industrial production in Asia was triggered by the massive appreciation of the yen in 1985 (*endaka*), and accelerated further in 1993 as the Japanese currency continued to rise. This project examines whether these trends may not lead to a long term de-industrialisation of the archipelago. The project shows how Japanese, overseas industrial production has developed rapidly, though for a long time Japan lagged behind the other major industrialised countries in this area.

Trade and foreign direct investment flows between Japan and the rest of Asia are examined, in order to highlight the way the trade cycle has developed in this region. This cycle is linked to the different phases in the maturity of foreign direct investment. To begin with, Japanese exports of machine-tools and component parts were stimulated strongly. This was followed by exports of increasingly sophisticated components. The last phase in the cycle concerns the importation of finished goods, produced from Japanese-made components and parts, goods which compete or replace domestic production in Japan. To prevent an unfavourable, boomerang effect from squeezing out production and employment in parent companies, during the final phase of the cycle, the latter have to shift their production upmarket and into new areas.

Far from weakening Japan's industrial fabric, the rapid relocation of production may, on the contrary, act as a catalyst for overhauling capacity, giving rise to new activities. Yet such trends are still in their infancy.

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Recent Publications

ECONOMIE INTERNATIONALE, QUARTERLY

• NO 66, 2ND QUARTER 1996.

EXCHANGE RATES IN ASIA

Présentation
V. Coudert, C. Lefebvre

• *'La sous-évaluation des monnaies asiatiques'*,
F. Benaroya, D. Janci

• *'L'effet Balassa : un effet robuste et de longue période'*,
F. Busson, P. Villa

• *'Régimes et politiques de change en Asie'*,
A. Bénassy-Quéré

• *'Y a-t-il formation d'une zone yen dans la région Asie-Pacifique ?'*,
V. Levasseur, F. Serranito

RUSSIA

• *'Le marché des titres d'Etat russe et la stabilisation de l'inflation'*,
O. Paquier, B. Rousselet

• *'La coopération économique dans la Communauté des états indépendants'*
V. R. Evstigneev

• *'Les structures de financement des entreprises en Europe'*
L. Nayman

• NO 65, 1ST QUARTER 1996.

EUROPE BETWEEN THE SINGLE MARKET AND MONETARY TENSIONS

Convergence and Monetary Union

• *'Les effets des dévaluations'*,
P. Cour, H. Delessy, F. Lerais, H. Sterdyniak

• *'Un réexamen des critères de convergence'*,
M. Aglietta, M. Uctum

• *'Les coûts d'une union monétaire'*,
J. Melitz, A.Weber

• *'La transmission de la politique monétaire'*,
F. Barran, V. Coudert, B. Mojon

Integration and Trade

• *'L'Europe et le reste du monde'*,
L.A. Winters

• *'Les biens intermédiaires'*,
L. Fontagné, M. Freudenberg, D. Ünal-Kesenci

• *'Echanges et spécialisation géographique'*,
M. Bülhart

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LA LETTRE DU CEPII, MONTHLY

• *'Libre-échange euro-méditerranéen : marché de dupes ou pari sur l'avenir ?'*,
I. Bensidoun, A. Chevallier
NO 147, JUNE 1996.

• *'L'économie russe à la veille des présidentielles'*,
G. Sokoloff, G. Wild
NO 146, MAY 1996.

• *'Croissance et spécialisation'*,
P. Villa
NO 145, APRIL 1996.

• *'Transmission de la politique monétaire dans les pays européens'*,
V. Coudert
NO 144, MARCH 1996.

• *'Elus et exclus de la monnaie unique'*,
L. Nayman, J. Pisani-Ferry
NO 143, FEBRUARY 1996.

• *'Aspects de la spécialisation européenne'*,
M. Freudenberg, D. Ünal-Kesenci
NO 142, JANUARY 1996.

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BOOKS, BY CEPII RESEARCHERS

• *EUROPE-MÉDITERRANÉE : LE PARI DE L'OUVERTURE*
I. Bensidoun, A. Chevallier
182 P., coll. CEPII, Economica, FF 98.

• *ECONOMIE MONDIALE 1997*
A. Chevallier, D. Pineye (eds.)
128 p., coll. Repères, La Découverte, FF 49, (forthcoming in August 1996).

This is an annual CEPII publication outlining major events in the world economy for a wide readership.

CEPII WORKING PAPERS

• *'Pays émergents, emploi déficient ?'*,
O. Cortes, S. Jean
NO 96-05, MARCH 1996.

• *'Trade With Emerging Countries and the Labour Market: The French Case'*,
O. Cortes, S. Jean, J. Pisani-Ferry
NO 96-04, MARCH 1996.

• *'The Transmission of Monetary Policy in the European Countries'*,
F. Barran, V. Coudert, B. Mojon
NO 96-03, FEBRUARY 1996.

• *'Trade Policy and Trade Patterns During Transition: A Comparison Between China and CEECs'*,
F. Lemoine
NO 96-02, FEBRUARY 1996.

• *'Financial Market Failures and Systemic Risk'*,
M. Aglietta
NO 96-01, JANUARY 1996.

Events: Seminars and Meetings

- **The Single European Market and the Adaptation of Production**
L. Fontagné (CEPII, Université de Paris I), M. Freudenberg (CEPII), B. Lassudrie-Duchêne (Université de Paris I), D. Ünal-Kesenci (CEPII)
12 January

- **Flexible Integration: Towards a More Effective and Democratic Europe**
R. Boyer (CEPREMAP, CNRS, EHESS), M. Dehove (CGP), M. Dewatripont (Université libre de Bruxelles, ECARE, CEPR), J. Pisani-Ferry (CEPII), G. Tabellini (Università commerciale Luigi Bocconi, IGIER)
This meeting was organised jointly with CEPR (London)
19 January

- **The Transition: Macroeconomic and Structural Aspects**
P. Mordacq (EBRD), N. Stern (EBRD), London School of Economics)
30 January

- **Transformation of International Production Networks: The Experience of American, Japanese and Taiwanese Enterprises**
D. Ernst (BRIE, Berkeley), E. Dourille-Feer (CEPII)
9 February

- **The Single European Market and Monetary Fluctuations**
P.A. Buigues (European Commission), H. Delessy (CEPII), F. Lerais (OFCE)
22 February

- **European Monetary Union: Problems and Prospects:**
D. Gros (CEPS), P.A. Muet (OFCE), J.P. Pollin (Institut orléanais de Finances, Université d'Orléans)
1st March

- **The International Debt Strategy: Past and Future**
W. Cline (IIF, Washington), J. Sgard (CEPII)
13March

- **The Debate on the Industrial Site of Germany: Is There Light at the End of the Tunnel?**
K.H. Oppenländer (IFO, Munich)
14 March

- **Exchange Rate Stabilisation: What Can the G7 Achieve?**
J. Williamson (IIE, Washington)
26 March

- **The Progress of Regionalisation in Asia**
E. Bouteiller (HEC-Eurasia Institute), J.L. Domenach (FNSP, CERI), M. Fouquin (CEPII), A. Merlin (SEDEIS)
27 March

- **Exchange Rate Policies in Emerging Countries: Lessons from three Crawling Band Experiences (Chile, Colombia, Israel)**
J. Williamson (IIE, Washington)
27 March

- **Foreign Investments to the Year 2000**
F. Hatem, (EDF-International), G. Dollé (Usinor-Sacilor)
26 April

- **1996 World Economic Outlook: Globalization progresses: What to Do for Outsiders?**
(Jointly organised with World Bank)
U. Dadush (World Bank, Washington), C. Chavagneux (Commissariat général du Plan)
3 May

- **Apec's Future and the Euro-Asian Relationship**
I. Yamazawa (University Hitotsubashi, Tokyo)
5 June

- **Labour Cost Comparisons: France/Germany/United States**
O. Cortes, S. Jean, M. Fouquin (CEPII); E. Ribbes (Renault)
21 June

News in Brief

- A high-level seminar was jointly organised in Paris, in May, by the CEPII and the Foundation for Advanced Information and Research (FAIR, Tokyo). The seminar brought together leading officials in France's and Japan's Ministries of Finance, central banks and major banks. The topics addressed included: France and EMU, financial adjustment in Japan, the international role of the yen, as well as the relations between monetary policy and international trade.

- In April, Anton Brender (former Director) and Jean Pisani-Ferry (the present Director of the CEPII) participated in a meeting organised in Buenos Aires by the Consejo Argentino para la Relaciones Internationales (CARI), for the launching in Argentina of the CEPII's book: 'Economia Mundial 1990-2000: el imperativo de crecimiento'. The meeting was organised on the initiative of Carlos Moneta, Permanent Secretary of SELA (Sistema Economico Latino Americano) and Carlos Quenan, Associate Professor at the University of Reims (France).

- Henri Delessy is leaving the CEPII in September to join the French Post Office as a senior economist, responsible for financial and monetary studies. Mohammadou Dramé left the CEPII in June. We wish them all the best for the future.

- Laurence Boone and Stéphanie Guichard have joined the CEPII as members of macroeconomic team.

Forthcoming

- The CEPII is undertaking a joint study with Prof. Stephen Smith (University College London) on the consequences of adopting a new VAT system in the EU. This study has been commissioned by the French Senate, and is to be completed by the end of 1996.

- A seminar is being jointly organised by the CEPII and DELTA (EHESS, ENS and CNRS) on the fiscal adjustments in Europe. It will take place in Paris, on 12 September, and the programme will examine: the non-Keynesian effects of fiscal policy, the liberalisation of financial policies and expectations dynamics, fiscal policy and consumer behaviour, and the cost of fiscal adjustment. A round-table discussion will conclude the day's work.

- Together with the Association for the Monetary Union of Europe and the Korea Institute of Finance, the CEPII is organising a conference on the domestic and international implications of exchange rate policies in the emerging Asian economies. The conference will take place in Seoul on the 15-16 November 1996.

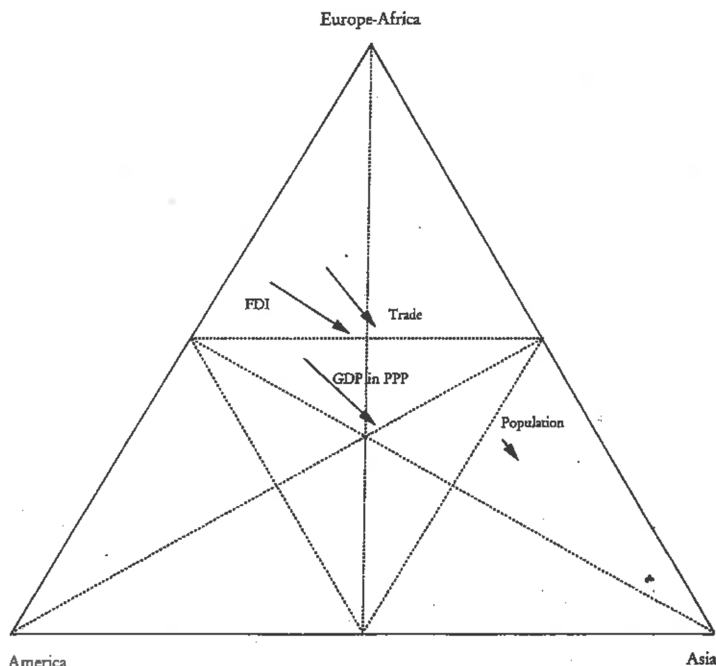
CHELEM DATABASE

Asia's Rise in the World Economy

The rapid growth of trade has been one of the most prominent transformations of the world economy since World War II. CHELEM data show that the (volume) of international trade grew fourfold between 1967 and 1993, whereas world output rose by a factor of 2.4, and population by 1.6[1]. As a result, the share of trade in world GDP almost doubled during this period.

The graph presents the relative importance of America, Asia and Europe-Africa (Europe including the Former Soviet Union, Africa and Middle East) in world population, output, trade and in foreign direct investment (both inward and outward FDI). If the distribution of the world's population has changed little between 1967 and 1993 - with more than half of humanity living in Asia - the centres of gravity for the other indicators have shifted noticeably. In fact, Asia doubled its share in world trade (from 13% to 25%) and in output (18% to 33%), and almost quadrupled its share in FDI (6% to 22%). The rapid displacement of these centres towards Asia, and the persistant discrepancy with the distribution of the world population suggest that this is a natural catching-up phenomenon, which will continue into the future as Asia's economic weight converges with its demographic weight.

Evolution of the Centres of Gravity of World Population, Output, Trade and FDI between 1967 and 1993



Source: CEPII, authors' calculations based on the database CHELEM.

* Trade and FDI figures here include intra-regional flows. Every observation (point) indicates its distance from the three regions: the closer a point is to a given region, the more important that region's share in the world total. Therefore, Asia's increasing share in world trade, output and FDI translates into a marked shift of the three centres of gravity of these variables downwards to the right.

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1. World production (GDP) is calculated in 1990 purchasing power parities (CEPII, database CHELEM) and world trade in value terms (CEPII, database CHELEM) is deflated by unit values (GATT).

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