

The CEPII NEWSLETTER ^{n°7} 1st semester 97

CENTRE D'ÉTUDES PROSPECTIVES
ET D'INFORMATIONS INTERNATIONALES

FOCUS

■ *Developing New Principles of Prudential Policy in Banking and Finance*

Dramatic changes have occurred in risk management practices and in banking supervision. In place of heavy-handed regulation, a market-friendly approach has been developed, based on: the recognition of international control models of risk assessment as a basis for capital requirements; the supervision of financial intermediaries on a consolidated basis; and the strengthened powers and responsibilities of supervisors to promote corrective action against excessive risk-taking. If universally adopted, these would amount to an emerging international prudential law.

The 1990s have witnessed the unfolding of problems of financial fragility which accumulated during the previous decade. Subsequently, widespread bank failures and financial market disturbances have spurred responses from market participants and regulators alike. A far-reaching process is currently being undertaken, aimed at reconciling financial liberalisation and innovation on the one hand, with the promotion of risk-awareness and incentives for efficient control on the other hand.

Powerful trends have led the complacent attitude towards risk, which was fashionable in the 1980s, to be discarded. The debt-financed, asset price bubble collapsed in the early 1990s, triggering a debt deflation process in non-financial sectors and spreading financial fragility in bank balance sheets.

The deteriorating creditworthiness among banks struck the international interbank market, which has contracted abruptly. The worsening conditions in bank liquidity have induced a new wave of financial innovation in the global market. In particular, a market for securities-based liquidity has developed, competing with the more traditional interbank market. Significant consequences have ensued: less credit risk, more market risk and a burgeoning, over-the-counter (OTC) derivatives market to manage it.

At the same time, banks have been seeking to restructure. To boost profit margins and eliminate excess capacity, they have had to combine speed of adjustment to changing demand, expertise to enter unfamiliar markets, and available cash-flow to exploit new opportunities. Conglomerates have been blossoming because they meet these requirements. But as global entities they bear higher risks than would arise simply from the sum of their parts. Multiple accounting of capital, cumulative exposures in the same counterparts, regulatory competition, reciprocal liabilities and intra-group solidarity can generate conflicts of interest *vis-à-vis* shareholders and towards depositors in banks affiliated to conglomerates. This entails the need of consolidated supervision. But the latter faces formidable obstacles because bank and non-bank regulators have different approaches, and because international cooperation is hard to promote.

Internal control systems decentralise the responsibility of managing market risk.

However the doctrine of prudential regulation is currently being overhauled, based essentially on the recognition of internal control systems of risk management and a pre-commitment approach to external

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supervision. These two complementary dimensions of reform are designed to decentralise responsibilities, keep moral hazard in check and reactivate the lender-of-last-resort's original purpose of preserving market liquidity and overall financial integrity.

Financial market intermediaries have complex trading portfolios composed of on- and off-balance sheet items. They have to render two different needs compatible. First, daily management at the level of operational units should induce traders to contribute to the overall objectives of the firm, while pursuing their own objectives within the constraints of the maximum limit of their net position. Second, a capital requirement has to be attached to a risk measure of a firm's overall trading portfolio.

Value-at-Risk (VaR) is the proper concept to match these conditions. It is the maximum likely loss possible for a given portfolio with a predetermined holding period, at a chosen confidence interval. VaR is 'riskmetrics' if three hypotheses are satisfied: the probability distributions of yields on underlying assets are normal; yields on portfolio items are linear functions of yields on their underlying assets; there is no serial correlation between stochastic events, which enables the probability distributions to be stationary. Where these hypotheses are not strictly satisfied, banks have developed their own brands of internal models, in an attempt to capture fat tails and skewness in historical distributions, non-linearities of options, or time variations of volatility parameters. The state-of-the-art attained in the most sophisticated firms performs reasonably well in tranquil market conditions. Yet, model reliability does not guarantee good risk management. Internal auditing has to take place at every hierarchical level, and be strictly separated from active management, with the power to stop detected violations of safety rules.

A market-friendly approach to prudential policy is being carried out.

Besides, under conditions of stress, VaR models break down. Stress follows from the conjunction of macroeconomic turbulence and market failure, because of illiquidity or solvency problems in the narrow segments of OTC derivatives or securities markets, when market-makers are highly concentrated. At the level of individual financial firms, conditions of stress entail quite different methods from those of standard VaR analysis. Stress testing is complex and highly costly in terms of data collection and system modelling, because it has to capture the externalities arising under systemic risk (i.e. market illiquidity, degraded counterparts, or sudden price shifts). The methodology implies generating worst-case scenarios, capable of simulating catastrophic conditions. The comparison between the worst losses computed and the more traditional VaR measures can give rise to multipliers applied to VaRs in determining capital requirements. Stress testing also brings better knowledge of market dyna-

mics, enabling the development of early warning indicators and prompt corrective action.

Prudential regulation is no longer conceived of as a set of detailed prescriptions within a hierarchical framework between supervisors and supervisees. It aims at defining a set of general guidelines for best practices in risk management. The whole process which started five years ago, has been under way for long enough for the two basic principles of the new prudential framework to be perceived.

The first core principle is the recognition by prudential authorities of the internal control systems designed by market participants. Supervisors are learning to control the quality of the methods of self-control. This entails setting minimum requirements for models of risk assessment and inspecting the effectiveness of risk containment procedures throughout a firm's structure. Whenever several supervisors are concerned, namely for controlling heterogeneous financial groups, a consolidated approach should be followed.

Supervisors should take corrective action well before technical insolvency.

The second core principle is the careful imposition of prompt corrective action. It is the corollary of the internal systems which give the responsibility of controlling risk to managers and shareholders. The latter should not evade their responsibility. Therefore supervisors should enforce corrective action well before technical insolvency: the more degraded the capital base, the tougher the firm's required response.

The ability to pursue such conduct requires supervisors to be sheltered from conflicts of interest, be they financial or political. Prudential policy is moving the way monetary policy has already gone, based on the principle of independence for supervisors. To exert their enhanced goal of preventing defaults, supervisors must be given expertise and authority over market intermediaries, whether they are banks or non-banks.

If the basic, twin principles of prudential regulation are enforced, the lender-of-last-resort will no longer be hostage to failed banks. It will become possible to move away from the 'too big to fail' syndrome which has thwarted market discipline in the past. The lender-of-last-resort will be able to recover its original purpose of preventing market liquidity crises in order to preserve the integrity of the financial system as a whole.

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FOR FURTHER INFORMATION SEE:

• *MACROÉCONOMIE FINANCIÈRE*,

M. AGLIETTA,

COLLECTION REPÈRES, LA DÉCOUVERTE, 1995.

• 'FINANCIAL MARKET FAILURES AND SYSTEMIC RISK',
M. AGLIETTA, *CEPII WORKING PAPER*, No 96-01,
JANUARY 1996.

• 'LA CRISE BANCAIRE EN FRANCE ET DANS LE MONDE',
M. AGLIETTA, *LA LETTRE DU CEPII*, No 155,
MARS 1997.

RESEARCH SUMMARY

■ The Euro and Exchange Rate Stability

The move to European Monetary Union (EMU) will represent a major change for the international monetary system. It will be the first time that large countries give up their national currencies to create a new, common money. What will be the impact of this change on the stability of the dollar against the European currencies? Two opposite views of this important question are provided in recent CEPII working papers¹. Agnès Bénassy-Quéré, Benoît Mojon and Jean Pisani-Ferry suggest that the real effective exchange rate (REER) of the euro could be more unstable than that of existing currencies, whereas Philippe Martin reaches the opposite conclusion. Here is a summary of their arguments.

Reciprocal Benign Neglect and REER Instability

It is popularly believed that the European Central Bank (ECB) will be less interested in achieving exchange rate stability because the euro zone will be larger and mechanically less open than those of individual member countries. The ECB will subsequently concentrate on its internal targets, which would appear to be relatively more sensitive to monetary instruments. In other words, a kind of reciprocal benign neglect of exchange rates could develop between Europe and the US.

The ECB will likely focus more on internal price objectives than exchange rate stability.

This argument is carefully studied using a simple analytical model which shows the effect of the monetary union on the real effective exchange rate of the euro zone. The world economy is made up of three countries called France, Germany and the US, which are linked through goods and capital markets. With floating exchange rates in Europe, each national central bank sets its interest rate so as to minimise the squared discrepancies of inflation and the real exchange rate from their targets. When both European economies are hit by a common, positive demand shock, both central banks raise their interest rates so as to dampen inflation, and to limit the loss in competitiveness. Because they implement the same policy, the FF/DM exchange rate is not affected: *ex post*, the exchange rate channel of monetary policy is therefore less effective than expected *ex ante*. In the EMU regime, the ECB sets the interest rate so as to target inflation and the REER of Europe as a whole. Knowing that the intra-European exchange rate is fixed, the ECB correctly evaluates the cost of stabilising the effective exchange rate in terms of the internal objective. It then puts more emphasis on its internal objective of price stability, using a larger variation in the interest rate, at the expense of the exchange rate *vis-à-vis* the US dollar, which turns out to be more volatile.

The model also allows EMU and the European Exchange Rate Mechanism (ERM) to be compared.

A 'hard' ERM with no fluctuation bands is considered, without any realignment of expectations. Thus, when the Bundesbank sets its interest rate, it knows that the Banque de France will behave so as to defend a constant FF/DM exchange rate. In case both countries are hit by the same positive demand shock, the Bundesbank knows that the DM will appreciate against the US dollar, but not against the FF. This leads to the same monetary policy as in the EMU regime. In the case of a demand shift from France towards Germany (an 'anti-symmetric' demand shock) European currencies appreciate against the US dollar in the ERM regime, while there is no impact on the euro-zone REER in either a floating or an EMU regime.

In brief, the model shows that the REER of the euro zone may be more unstable in the EMU regime than in a floating regime, but less unstable than in a 'hard ERM' regime. As the present regime lies between a free float and a 'hard ERM', it is difficult to guess whether the instability will increase or decrease in the long run. Nevertheless, the most important comparison is with the floating regime which, with very high capital mobility, stands as the likely alternative to EMU. The model shows that EMU may bring additional instability in the euro-zone exchange rate compared to a float, although the instability may be reduced for individual European countries.

The EMU may cause more instability than free-floating, but a comparison with the present ERM is less clear-cut.

This result seems relatively robust with respect to alternative specifications of the central banks' policy trade-offs: when central banks target the consumer price increase and the output gap, the same increase in the instability of the euro-zone REER is generally obtained when moving from the floating regime to EMU. The only exception concerns common, supply shocks which are generally not believed to be dominant in Europe (howe-

(1) It is widely believed that exchange rates may be unstable at the beginning of the EMU, because of portfolio reallocations, likely macroeconomic conditions and the uncertainty about future monetary policy. Both working papers focus on the EMU, as a steady state regime, leaving the transition period aside.

ver, further research will include an econometric evaluation of the relative importance of the various shocks). Preliminary quantitative evaluations, based on dynamic simulations of a calibrated model, confirm the analytical results, although the increa-

sed instability when moving from a floating regime to EMU is moderate.

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Size Leads to Greater Exchange Rate Stability

Much is unknown about European monetary integration as it has no historical precedent. However, it is sure that the size of the zone created by the EMU will be bigger (far bigger in the case of EMU15) than the European countries taken separately. The starting point of this research supposes that the size effect of EMU can be exploited to analyse the exchange rate policy of the EMU, from a theoretical and an empirical point of view. In an open economy, country size matters as a determinant of monetary policy and exchange rate volatility because it changes the incentive to use monetary policy in influencing the exchange rate.

One way to analyse this size effect in economic terms is to interpret the creation of the euro as implying a change in the relative size of the players in international monetary relations. From game theory, it can be shown that the size of players matters in determining equilibrium strategies and economic outcomes.

A large country has less incentive to use its monetary policy strategically.

It is assumed that unanticipated changes in the exchange rate can help countries stabilise their economy when shocks occur. This may be because a country can obtain greater employment and output (during a recession for example) if it succeeds in lowering its real wage below the level of other countries, which amounts to a real depreciation. A large country will have less incentive to use its monetary policy strategically to stabilise its economy than a small country, because its output depends less on the exchange rate than does that of a small country. Hence, large countries should have more stable exchange rates than smaller ones. Alternatively, when a country is 'very small', exchange rate variability becomes more important than domestic shocks, as a source of output variability. This implies that 'very small' countries will use their monetary policy to stabilise their exchange rate, which is therefore more stable. Hence, in a formal model, this logic suggests that exchange rate variability should be a hump-shaped function of country size. Exchange rate variability should also be an increasing function of the variability of shocks in both countries (because the exchange rate reacts to these shocks) and a decreasing function of the correlation of shocks (because a high correlation of shocks induces similar monetary policies and a stable exchange rate).

As EMU entails the creation of a very large common currency zone, the hump-shaped relation-

ship suggests that the euro exchange rate should be more stable than that of the European currencies. This should bring welfare gains.

From a theoretical point of view however, other channels may lead to higher exchange rate volatility. The previous article argues on theoretical grounds that EMU should lead to higher exchange rate instability because, by creating a more closed economy, it will be less concerned with trade imbalances and with the inflationary consequences of exchange rate changes. However, even if these models predict that EMU will lead to increased exchange rate variability, the conclusion is still that welfare will be increased from a macroeconomic point of view. This is because the increased exchange rate variability only reflects the fact that monetary policies will react more, and optimally, to domestic shocks.

As the theory can predict a positive or a negative effect of EMU on exchange rate instability, the next natural step is to attempt to analyse the question at the empirical level.

The implications of the theoretical model have been tested on a cross-section of 210 bilateral exchange rates of the OECD countries, for the period 1980-1995. The model that predicts a humped-shaped relation between exchange rate variability and country size works well even after controlling for several other determinants of exchange rate volatility such as the EMS, the use of a currency as a reserve currency, the correlation of shocks, bilateral trade and volatility of shocks. The hump shape also appears to hold for the sub-sample of European exchange rates with the dollar.

Finally, the empirical model is used to make a 'back of the envelope' prediction of what the dollar/euro variability might be, compared to the past variability of the dollar/DM exchange rate. The result is that it should decrease, and it would be consistent that this decrease should be more important the larger the size of the EMU. The decrease becomes quantitatively important for a large EMU, not restricted to the core countries. Of course, the Lucas critique is very strong in the case of such a fundamental change in regime as EMU, so that this prediction should be taken with much caution.

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FOR FURTHER INFORMATION SEE:

- 'THE EURO AND EXCHANGE RATE STABILITY', A. BÉNASSY-QUÉRÉ, B. MOJON & J. PISANI-FERRY, *CEPII WORKING PAPER*, No 97-12, JUNE 1997.
- 'THE EXCHANGE RATE POLICY OF THE EURO: A MATTER OF SIZE', P. MARTIN, *CEPII WORKING PAPER*, No 96-06, APRIL 1997.

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FRANCE

ON THE RESEARCH AGENDA

RUSSIAN BANKS DURING TRANSITION

This joint, TACIS-ACE research project between the CEPII and IMEMO (Moscow) has three main orientations. First, it tackles the adjustment of the Russian banking system since price liberalisation, with regard to both the macroeconomic environment and enterprise restructuring. This raises many decisive questions, such as the role of banks in strengthening financial discipline, the evolving capacity of firms to adjust to market and policy signals, and the reasons behind the extension of barter trade over the last years.

The second main topic is the impact of regional divergences on financial stabilisation and on the consistency of monetary policy: different speeds of adjustment, recovery and productivity growth within the country will represent major obstacles for policy-makers in the future. They will bear directly on the design of a new, rational, federal structure.

Lastly, the project compares reform and adjustment paths in Russia with the experience of the more-advanced countries in Central Europe: although transitions have followed very different trajectories in each country, a series of basic policy issues has had to be addressed in all cases, which should allow for a precise, policy-oriented comparison of the respective reform programmes.

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THE FUTURE OF TRADE BETWEEN THE EUROPEAN UNION AND THE ASSOCIATED CEEC STATES

This study is being conducted as part of the ACE programme, in collaboration with P. Brenton (CEPS, Brussels), B. Majcen (Institute for Economic Research, Ljubljana), K. Marczewski (Foreign Trade Research Institute, Warsaw), G. Papanek (Economic Research Institute, Budapest) and A. Zemplerova (Economic Institute of the Academy of Sciences, Prague).

It first aims at assessing the impact of the European Agreements on trade between the Associated Countries and the EU, and the likely evolution of aggregate trade flows during the next decade under different scenarios for income growth in the two regions. A broad quantification of how accession to the EU (and thus to the Single Market) will affect the magnitude of trade between the EU and the Associated Countries will then be undertaken.

The project also provides a careful assessment of recent trends in the structure of trade between the Associated Countries and the EU, including consideration of how comparative advantages may evolve in the Associated Countries, and whether they will remain specialised in the so-called "sensitive sectors". The analysis of the nature of trade flows (inter-industry trade, intra-industry trade in horizontally differentiated products and intra-

industry trade in vertically differentiated products) should provide some helpful insights into the competition between firms from the EU and the Associated Countries.

Finally, linking trade and domestic production data in individual Associated Countries will highlight the relationship between the structural changes that have accompanied their industrial recovery and their trade performance. Estimates will also be made of the factor content of their exports.

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THE CEPII'S COMPETITIVENESS REPORT

Competitiveness is a popular concept and although it is considered to be relatively elusive by professional economists, many reports are available on the subject. Most of these reports adopt a national approach (such as the report on British competitiveness), whereas only a few offer a global perspective (for example the competitiveness report published by the World Economic Forum of Davos). The CEPII believes that there is still room for an annual, world report based on further economic analysis.

To begin with, this requires a clear definition of the concept of competitiveness. Therefore, a distinction must be made between macroeconomic and microeconomic competitiveness. Furthermore, short term and long term issues have to be dealt independently. Against this background, the CEPII intends to compute various indicators for the world economy. In order to approximate the structural or long-term macroeconomic performance of countries, both levels of development and convergence issues have to be examined. In the short run, the macroeconomic approach to competitiveness is based on the evolution of real exchange rates, relative prices, and relative unit labour costs.

The analysis at the sectoral level is also divided in two parts. While the first is based on the constant market-share analysis and the adaptation of exports to the dynamism of international demand, the second part reveals countries' structural strengths and weaknesses at the sectoral level.

These different issues are treated in the central part of the report, which will be introduced by a survey of the main events affecting international competitiveness during the last year and their main consequences for the world economy. The last section is dedicated to specific subjects: the 1998 report will examine the links between foreign investment and external trade.

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Recent Publications

ECONOMIE INTERNATIONALE, QUARTERLY

• No 69, 1st QUARTER 1997.

CROISSANCE POTENTIELLE ET ECART DE PRODUCTION, SPECIAL ISSUE

• 'Écarts de PIB : une grande variété de méthodes et de diagnostics',

G. Cette, H. Delessy

• 'La notion de croissance potentielle a-t-elle un sens ?',
H. Le Bihan, H. Sterdyniak,
P. Cour

• 'Comment positionner les économies dans le cycle',
F. Boccara, K. Bouthevillain,
B. Coeuré, D. Eyssartier

• 'Les estimations de l'écart de production de la Commission européenne'

H. Ongena, W. Röger

• 'Les estimations de l'écart de production du FMI'

P. de Masi

• 'Les estimations de l'écart de production de l'OCDE'

C. Giorno, W. Suyker

• 'Utiliser l'écart de production pour prévoir l'inflation : l'expérience de la Banque d'Angleterre'

P. G. Fisher, L. Mahadeva,
J. D. Whitley

• 'Positionnement dans le cycle : quelques évaluations pour l'économie française'

G. Cette

• 'Le calcul des capacités de production utilisé par la Bundesbank'

T. Westermann

• 'Croissance tendancielle, croissance potentielle et output gap : les analyses de la direction de la Prévision'

J.-P. Cotis, H. Joly

• 'Croissance potentielle et fluctuations conjoncturelles en Tunisie'

R. Baccouche, R. Bouazizet,
M. Goaïed

Price:

FF 117 per issue,

FF 440 annual subscription in

Europe, and FF 465 outside

Europe.

Publisher: la Documentation française

LA LETTRE DU CEPII, MONTHLY

'Chine-Hong-Kong : un pays, pas de système',

F. Lemoine, J. Sgard

No 158, JUNE 1997

'L'impact sectoriel du taux de change du dollar',

L. Cadiou, O. Cortes, C. Lefebvre

No 157, MAY 1997

'L'euro et le dollar',

A. Bénassy-Quéré, P. Martin,

J. Pisani-Ferry

No 156, APRIL 1997

'La crise bancaire en France et dans le monde',

M. Aglietta

No 155, MARCH 1997.

'L'impact du Marché unique sur le commerce européen',

L. Fontagné, M. Freudenberg

No 154, FEBRUARY 1997.

'Quand le marché chinois s'ouvrira...'

F. Lemoine

No 153, JANUARY 1997.

Price:

FF 305 annual subscription in

Europe, FF 305 outside Europe.

Publisher: la Documentation française

BOOKS, BY CEPII RESEARCHERS

• *TRADE PATTERNS INSIDE THE SINGLE MARKET*

L. Fontagné, M. Freudenberg,
E. Gordo, C. Martin and N. Péridy
288 p., Kogan Page (London), for
the European Commission, £45.

• *ECONOMIE MONDIALE 1998*

A. Chevallier, D. Pineye (eds.)

128 p. coll. Repères, La
Découverte, FF 49.

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

CEPII WORKING PAPERS

• 'Pour ou contre le système commun de TVA ?',

S. Guichard, C. Lefebvre

No 97-13, JUNE 1997.

• 'The Euro and Exchange rate Stability',

A. Bénassy-Quéré, B. Mojon,

J. Pisani-Ferry

No 97-12, JUNE 1997.

• 'Estimation du cycle à l'aide d'un modèle à tendance stochastique et application au cas du Royaume-Uni',

L. Boone

No 97-11, JUNE 1997.

• 'Looking for French Monetary Policy',

B. Mojon

No 97-10, JUNE 1997.

• 'Incertitude sur le choix du modèle et rationalité',

P. Villa

No 97-09, MAY 1997.

• 'Quel est l'impact du commerce extérieur sur la productivité et l'emploi ? Une analyse comparée des cas de la France, de l'Allemagne et des Etats-Unis',

O. Cortes, S. Jean

No 97-08, APRIL 1997.

• 'Trade Patterns Inside the Single Market',

L. Fontagné, M. Freudenberg,

N. Péridy

No 97-07, APRIL 1997.

• 'The Exchange Rate Policy of the Euro: a Matter of Size',

P. Martin

No 97-06, APRIL 1997.

• 'Ces taux de change réels qui bifurquent',

P. Villa

No 97-05, APRIL 1997.

• 'Chômage non qualifié et imitation : les raisons d'un accord

international sur la propriété intellectuelle',

L. Fontagné, J.-L. Guérin

No 97-04, MARCH 1997.

• 'Symmetry and Asymmetry of Supply and Demand Shocks in the European Union: a Dynamic Analysis',

L. Boone

No 97-03, FEBRUARY 1997.

• 'Interest Rates in East Asian Countries: Internal Financial Structures and International Linkages',

I. Bensedoum, V. Coudert,

L. Nayman

No 97-02, JANUARY 1997.

• 'Intra-Industry Trade: Methodological Issues Reconsidered',

L. Fontagné, M. Freudenberg

No 97-01, JANUARY 1997.

Events

SEMINARS AND MEETINGS

- **The Impact of the Single Market on the Nature of Trade Flows**
L. Fontagné and M. Freudenberg (CEPII)
14 January
- **The Modalities of Moving to a Single Currency**
Y. Ullmo (Conseil National du Cr dit), P. Amouyel (Ministry for Post and Telecommunications)
21 January
- **The Modalities of Moving to a Single Currency: the German and Belgian Experiences**
U. Schr der (Deutsche Bank), P. Praet (G n ral de Banque - Belgium)
6 March
- **Contrasting Views on the Eastward Enlargement of the European Union**
G. Wild (CEPII), G. Mink (CNRS), C. Deubner, M-C. Maurel
14 March
- **The Korean Economy: Challenges and Responses**
Kyu Uck Lee (Korean Institute for Economics and Trade, KIET)
15 April
- **The Hungarian Economy: The Results and Problems of Stabilisation**
K. Soos (Former Deputy Secretary for Trade, Warsaw)
30 May

CONFERENCES

- The CEPII and *Le Monde* organised a conference on the 25 June 1997 in Paris entitled 'Throwing light on the Chinese economy'. Issues addressed included: China's long term development, the measurement of growth, the transition, and China's international relations. The principal presentations were made by: A. Maddison (Uni. of Groningen), W.T. Woo (Uni. of California at Davis), A. Szirmai (Uni. of Eindhoven), G. Fan (Institute of Economics, Academy of Social Sciences, Beijing), J.-L. Domenach (FNSP), G. Leung (HKSB), H.-S. Wang (ICBC) and V. Nehru (IBRD).
- A presentation was organised by the CEPII at the French Senate on the 25 February 1997 on the effect of the Single European Market. The speakers were P. Buigues, D. White and J. Farnell of the European Commission, J.-C. Donnellier (DREE, Ministry of Economics, Finance and Industry) and J. Pisani-Ferry (CEPII). An account is available in the *Revue du March  Commun et de l'Union europ enne*, No. 409, June 1997.
- A conference was held by the CEPII on the 27 May 1997 in Paris, on 'Europe, East Asia, APEC and the ASEM (Asia-Europe Meeting) Process', in collaboration with Global Economic Institutions, CEPR and Australia-Japan Research Centre (Canberra).
- At the *Journ es internationales du Commissariat du Plan* co-organised with the CEPII, M. Goldstein (Institute of International Economics, Washington) spoke on 'Financial crises in emerging countries and risk prevention' on 8 July 1997. M. Aglietta (CEPII) was the discussant.

News in Brief

- Jean Pisani-Ferry, director of the CEPII, has left the Centre to serve as senior economic advisor to Mr Dominique Strauss-Kahn, France's new Minister of Economics, Finance and Industry. Jean Pisani-Ferry first began working at the Centre in 1977, becoming head of macroeconomic forecasting in 1985, before leaving for the European Commission in 1989, where he worked on Economic and Monetary Union, and the transition economics of the former USSR. He returned to the CEPII as director in 1992. We wish him all the best for the future.
- Virginie Coudert, editor of the CEPII's quarterly journal, *Economie internationale*, has been seconded to the Banque de France. She will continue to serve on the journal's editorial board, together with J r me Sgard (the new editor of the journal), Philippe Martin and Jean-Marc Siro n.
- Chantal Bartholin, left the CEPII as secretary general of the CIREM, a club which brings together the CEPII's researchers and economists of France's largest companies and professional trade associations. We wish her all the best for the future. Marie-Pierre Mol, formerly executive director of the French Business Association (Singapore) has succeeded her.
- The CEPII and the CEPR organised a joint workshop on 'Growth, Trade and Location' on the 26 May 1997 in Royaumont outside Paris.

Forthcoming

- A special issue of *Economie internationale* will be dedicated to globalisation, convergence and international inequalities, in the third quarter of 1997.
- The proceedings of the conference in Seoul (15-16 November 1996) on implications of exchange rate policies in the emerging Asian economies will be published at the end of 1997, (in book form) by Routledge, London. The document is being edited by S. Collignon (AUME), Y.C. Park (KIF) and J. Pisani-Ferry.
- The IFRI (Institut fran ais des relations internationales) and the CEPII will jointly publish the papers and discussions of the Franco-British seminar they held, the 9 October 1996, in cooperation with the Royal Institute of International Affairs.

CHELEM DATABASE

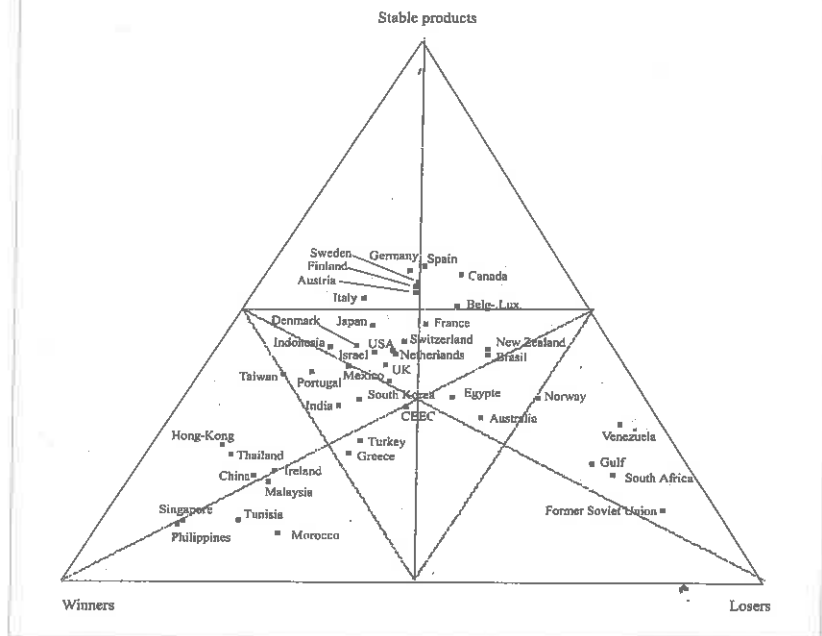
The Adaptation of Manufacturing Exports to International Demand

The level and especially the variation of market shares are sometimes used as indicators of the competitiveness of nations. However, the relative decline in terms of export market shares experienced by certain industrialised countries over the last years is partly an automatic phenomenon, as emerging and developing countries participate increasingly in international trade. A country's performance may be apprehended by its adaptation to international demand, i.e. whether a high share of its exports is in product categories which are themselves increasing in international trade.

The 48 manufacturing product categories identified in the CHELEM database are grouped into three classes, depending on the evolution of their share in world trade over 1983/85 and 1993/95. 'Winners' are goods whose share in world trade increased by at least 10%: they include high technology goods such as electronic components, computer and telecommunication equipment and pharmaceuticals, and also labour-intensive goods like clothing, knitwear or leather and footwear. 'Losers', which saw their share decline by least 10%, include ships, iron and steel and basic organic and inorganic chemicals. In between the two are 'stable products' such as cars, vehicle components, motors, machine tools or specialised machines.

The triangle shows the relative importance of these three classes in the manufacturing exports of selected countries in 1993-1995. Three groups of countries can roughly be identified. Countries where 'winners' represent more than 50% of manu-

The structure of manufacturing exports according to the dynamism of products in international demand, 1993-95



facturing exports (located close to the bottom left of the triangle) include Singapore, Malaysia, and Ireland (mostly in electronic or computer goods) and China, Hong-Kong, Tunisia, and Morocco (mostly textile products). The Philippines and Thailand export both product groups. Stable products are important for most industrialised countries, especially for Germany (cars, specialised machinery miscellaneous hardware or vehicle components). In contrast, declining products account for a high share of exports for the former Soviet Union, South Africa, and Venezuela (especially in non-ferrous metals, iron and steel and basic chemicals), and the Gulf countries (basic organic chemicals and non-ferrous metals).

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CEPII

CENTRE D'ETUDES PROSPECTIVES
ET D'INFORMATIONS
INTERNATIONALES

- *Publisher:* 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, launched with the support of the German Marshall Fund of the United States (Washington) and the *Direction des relations économiques extérieures* (Ministry of Economics and Finance, Paris).

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

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

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