

FOCUS

■ The International Role of the Euro¹

The creation of the euro is a major change for the International Monetary System. The euro is the currency of a large economic zone and is acquiring some of the fundamental attributes which characterise an international currency. EMU also leads to major institutional shifts which could affect the behaviour of the trans-Atlantic exchange rate, and could lead to changing practices in international cooperation.

The decline of the dollar as an international currency has already taken place, leaving some room for the euro. However, the extent of this decline varies across the functions of the international currency. It is generally admitted that an international currency is a means of payment, a store of value and a unit of account both for the private and for the public sectors, totalling six monetary functions. The use of a specific currency for these various functions is characterised by inertia. Inertia stems from transaction costs which fall for larger turnover, favouring the existing international currency. It also stems from various externalities which raise the incentive of using the most widely-settled international currency. Finally, the low internationalisation of a currency for one function can slow down its internationalisation for other functions.

Inertia is less important for the store of value function than for other functions, which may explain why the decline of the international status of the dollar has been more pronounced for this function than for the vehicle and unit of account

functions. However the slow decline for the latter functions may have impeded further decline in the store of value function.

The internationalisation of the euro will be neither automatic, nor rapid.

EMU constitutes a huge shock as it suddenly creates a large zone with deep financial markets, no intra-zone exchange rate risk and an independent central bank. This shock may over-ride inertia and favour the emergence of the euro as an international currency. Size is important because it determines the absolute amounts of private investment and of public deficits, and subsequently the development of financial markets. In addition, the trade partners of a large zone have an incentive to use its currency for various functions, especially as a unit of account and as a store of value. But, size itself will not automatically entail the internationalisation of the euro, for various reasons.

Firstly, the potential role of the euro for trade invoicing is related to the level of transaction costs when using it, and to its variability against other key currencies. Secondly, a rush of international investors into the euro should not be taken for granted. Diversification out of the euro will also occur, because (a) European institutional investors presently display low currency diversification rates, (b) it is no longer possible to diversify currency risk by holding various European currencies simultaneously, and (c) international investors may be frightened in the short run by policy uncertainties and by possible large fluctuations in the euro/dollar exchange rate. Thirdly, the efficiency of the integrated European financial market will be crucial for the emergence of the euro. This efficiency will rise

(1) Based on a report originally submitted to the European Parliament in March 1998.

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because of (a) increased competition among financial intermediaries, (b) the rising role of institutional investors, (c) the currency uniformity of European securities, and (d) competition among euro asset issuers. However, EMU by itself does not provide as complete a financial market as the US financial market.

Finally, the monetary anchor function is often neglected when dealing with the competition for the international monetary status. However, this function has a strong impact on the use of the international currency for other functions, because defending a peg to a specific currency requires official interventions in that currency, and because it reduces the risk of exchange rate variations when using it. The Central and Eastern European Countries will have a strong incentive to peg their currencies to the euro, which will favour the internationalisation of the European currency.

In brief, inertia will work against the internationalisation of the euro, but the euro will benefit from size effects and from its attractiveness as a monetary anchor. Confidence in the ECB, limited variations of the euro exchange rate in the short run and quick transformations of the European financial market would favour the emergence of the euro. All this shows that the internationalisation of the euro will be neither automatic, nor rapid.

The euro could be a strong currency, due to the euro-zone's current account surpluses and low inflation.

Given that the euro-zone will likely accumulate current account surpluses and experience low inflation, the euro could be a strong currency in the long run, in real as well as in nominal terms. In addition, the euro/dollar exchange rate may over-shoot its long-run level at the beginning of EMU, because the demand for euro-denominated assets could initially be greater than their supply. At the beginning of EMU, the euro/dollar exchange rate may therefore prove quite unstable, due to portfolio reallocations.

In the long run, the trans-Atlantic exchange rate could also be more unstable, due to reciprocal *benign neglect* by the Fed and by the ECB with respect to the exchange rate, or to inefficient macroeconomic adjustments in a world with two international currencies. Alternatively, it could be more stable because less currencies in the world will be pegged to the dollar, or because the ECB will not react to shocks affecting two EMU members in opposite ways. Stochastic simulations show that EMU should reduce the variability of the trans-Atlantic exchange rate compared both to the ERM and to a general floating regime.

Due to its size and to the removal of intra-European policy inefficiencies, Europeans may have reduced incentives to cooperate at the global level. Conversely, the emergence of the euro as a competitor for the dollar may raise the willingness of the United States to cooperate. However this is a theoretical, economic analysis of cooperation. It considers the EMU-bloc as a single actor. In practice, the future of international cooperation will likely depend on the way it is organised within EMU.

The euro will transform the practice of international policy coordination.

In fact, international cooperation will not become symmetric across the Atlantic since Europe will not be represented internationally by a single institution or person. Moreover, EMU statutes contain a bias towards flexible exchange rates. This is because it leaves large *de facto* power to the ECB which is concerned by price stability rather than external competitiveness.

In addition, coordination between monetary and fiscal policies could become even more difficult than before. Although fiscal policies are often held responsible for exchange rate misalignments, the G-7 would not be able to commit itself to fiscal adjustments, since it would not provide coordination with some countries of the Euroland (for example the Netherlands)². Finally, European governments will be unwilling to commit their fiscal policy to an informal international agreement, once it is their only policy instrument left, while the ECB will be incapable of raising fiscal resources in case of a large payments crisis like that of Asia in 1997.

Hence, for both monetary and fiscal cooperation, the key element will be the ability of the euro-zone to sustain cooperation internally between its monetary and fiscal authorities. Cooperation within the euro-zone will be crucial, not only for domestic stabilisation, but also for global cooperation.

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FOR FURTHER INFORMATION SEE:

- 'EMU AND TRANSATLANTIC EXCHANGE-RATE STABILITY'
A. BÉNASSY-QUÉRÉ AND B. MOJON,
CEPII WORKING PAPER No 1998-02.
- 'THE INTERNATIONAL ROLE OF THE EURO',
A. BÉNASSY-QUÉRÉ, B. MOJON AND A.D. SCHOR,
CEPII WORKING PAPER No 1998-03.
- 'PEGGING THE CEEC'S CURRENCIES TO THE EURO'
A. BÉNASSY-QUÉRÉ AND A. LAHRÈCHE-RÉVIL,
CEPII WORKING PAPER No 1998-04.

(2) At the Euro11 summit of Brussels 1st December 1998, the Finance Ministers decided that the Euroland would be represented at G7 meetings by the President of the Euro11, by the ECB and by the European Commission (for technical support). Thus the functioning of monetary cooperation will depend on the way the ECB and the President of the Euro11 agree on a common position. In addition, the presence of the President of the Euro11 will make fiscal cooperation easier since he/she will be able to speak for the eleven governments of the euro-zone, even in case he/she is the head of a small country government (in that case, he/she will receive support from one of the three large euro countries).

RESEARCH SUMMARY

■ *Japan's Economic Crisis: a Lost Decade or a Historical Change?*

Japan's growth rate has been sluggish throughout the 1990s, and is scarcely expected to improve much for some time. Though international attention may be focusing on the financial sector (see next article), the debate within Japan is going right to the heart of its economic and social system.

The bursting of the financial and the real estate bubbles at the beginning of the 1990s has been followed by a decade of economic stagnation: growth recorded a mere 1.3% per annum from 1991 to 1997 (rising to 3.9% in 1996). In 1998, GDP is even set to fall by -2 or -3%, followed by zero growth at best in 1999. This is despite repeated government efforts to revitalise the economy. Indeed, eight massive reflationary plans were launched between 1992 and 1998, culminating with the ¥24 trillion yen (\$201 billion) package announced the 16th November 1998, and bringing the cumulative total to ¥100 trillion yen (\$821 billion).

Government attempts at fiscal stimulation have led to an explosion of public debt.

The main effect has just been to limit the fall of private consumption, while an adverse result has been the ballooning of public debt, up to 100% of GNP by 1998. In fact, mounting public deficits have increased household anxiety about the future, with the prospects of future tax increases and cuts in the pensions, given Japan's ageing population. Households also fear a worsening unemployment rate forecast to rise to 6.7 % in 2002, by the J.C.E.R¹. With the Asian crisis reinforcing uncertainty, consumption is low and the private sector is scaling back investment. The economy is at a standstill.

This situation has led Japan's first profound re-assessment of its economic and social institutions since the Meiji era which created an economic model built around the central role of the State as co-ordinator of economic life, channelling savings to industrial development and promoting egalitarian education. This model successfully enabled Japan to develop its manufacturing industry. It also allowed the country to recover swiftly after defeat in 1945, and to become world's second economic power by the beginning of the 1990s. But, the internationalisation of the economy, yen/dollar exchange rate volatility and the emergence of new competitors have progressively destabilised the economic system.

Co-operation between a powerful administration, politicians managing local affairs and industrialists worked well during the catching-up period of high growth. But it has proved to be inadequate to solve new economic constraints, as well as leading to corruption and mismanagement in the pre-

sent era of deregulation. Industrialists, who had become more independent with internationalisation, have continued to pursue turnover rather than profit margins and have failed to spur innovation sufficiently. At the same time, the administration, which has been reluctant to lose power by speeding up deregulation, has slowed the emergence of new sectors and protected mature ones. Meanwhile, politicians are under public pressure to draw up wide-ranging policies, but do not have the necessary know-how to do so, which remains largely in the hands of the administration.

Strong savings, which were vital when building the national stock of investment, have also led to over-investment (gross fixed investment is contributing 15-20% of nominal GDP, versus 10-12% in the United States) and excessive trade surpluses. The education system was tooled to shape hard-working salaried men in basic or assembly-line industries. It has not adapted to the information age requiring more innovative enterprise. Such is also the case of Japan's slow, consensus decision-making processes. The seniority wage system, one of the pillars of the employment system, has been called into question as competition requires more flexibility, while the *Keiretsu* (industrial groups) are also losing some of their coherence.

The present crisis calls for a fundamental re-organisation of Japan's economic model.

Amid this turmoil, households have lost confidence in their leaders as they appear to slow down the reform process and try to retain existing rights and privileges. Japan's citizens are expecting long-term policies, but they have been offered only short-term remedies. Nevertheless, the nation-wide brainstorming that is taking place now will certainly lead to deep restructuring. If so, the 1990s may not have been a lost decade.

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FOR FURTHER INFORMATION SEE:

• 'L'ÉCONOMIE DU JAPON',
E. DOURILLE-FEER,
COLLECTION REPÈRES, LA DÉCOUVERTE, PARIS 1998.

(1) Japan Center for Economic Research, 'Negative growth until FY 2001 likely', 3rd December, 1998.

■ *The Japanese Banking Crisis*

Since the burst of the financial bubble in the early 1990s, the Japanese economy has been suffering from a deep recession. One of the roots of this crisis lies in the banking sector. Its difficulties are also one of the main obstacles to a durable recovery. In particular, a credit crunch is currently aggravating the new slowdown of the Japanese economy, which was initially provoked by the fiscal retrenchment of 1997 and the Asian crisis.

Japan's banking sector problems stem from the poor management of financial deregulation that accelerated during the 1980s. This process has increased competition in the financial sector. However, the authorities did not adapt the supervision of banks to this new environment. Low interest rates in the 1980s stimulated banks to lend large sums to small and medium sized businesses and to the real estate sector without properly assessing credit risks. When monetary policy tightened and the bubble burst, Japanese banks faced reduced margins, an increase in the volume of bad loans outstanding, and difficulties to raise new capital.

Microeconomic responses to the banking crisis came very late and were inadequate.

4 Until 1995, the opacity of the Japanese banking system helped to hide the magnitude of the crisis, and hence to cover up the poor management of the banking sector by the Ministry of Finance. Its main response was macroeconomic: fiscal and monetary policies tried to stimulate economic activity. The banking sector was supposed to recover with the economic upturn. The lack of measures specific to the banking sector and the disappointing overall macroeconomic recovery caused the financial crisis to deteriorate even further.

Since 1995, several scandals and runs on small institutions have ended the period of secrecy and demonstrated the severity of the banking crisis and the impossibility of a solution without specific measures. The clean up of the financial sector has become one of the priorities of economic policy. Although several stabilisation plans have been implemented (about one every six months), the authorities have been unable to propose comprehensive and consistent measures. Until 1998, because of public resistance, they were highly reluctant to use public funds to assist banks, as had occurred for the Savings & Loans crisis in the USA or in the Scandinavian countries. Moreover, the clean up of the banking sector was held up because of fears that the necessary adjustments would affect the overall economy.

At the beginning of 1999, the situation is worse than ever. The volume of bad loans is estimated at about 20 % of GDP, and concerns several large banks as well as thousands of credit co-operatives. The loss of confidence in the financial system

is general and worsens the economic and the financial crisis. Moreover, several other phenomena are also contributing to the credit crunch. The difficulties of banks are driving down stock prices, which has removed all latent profits banks could have used to reduce their losses and improve their capitalisation ratios. Hence, one of the few options left for banks to improve these ratios has been the reduction of outstanding loans. Banks also have to pay a risk premium when they borrow money. Finally, depositors have transferred large amounts from banks to the postal savings system. Since 1992 postal deposits have increased by 8% per year, while private bank deposits have stagnated.

The new plan is a first stage in the financial stabilisation process, but uncertainty remains.

In response to this situation a new stabilisation plan was set up at the end of last year. The authorities are first trying to increase credit by using public funds to re-capitalise solvent institutions. ¥25 trillion have been made available, but banks asked for only a quarter of this amount. The authorities are trying to lessen savers' fears by reinforcing deposit insurance by ¥18 trillion. Finally, they have provided funds to small businesses suffering from the credit squeeze. Progress also seems to have been made on the clean-up issue. ¥17 trillion will be used to nationalise insolvent banks. Two big banks, the Long Term Credit Bank and Nippon Credit Bank, turned out to be insolvent and were nationalised. Others may follow. However, large uncertainty remains concerning the conditions in which such action will be implemented and the speed of the clean-up process.

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FOR FURTHER INFORMATION SEE:

• 'LA POLITIQUE MONÉTAIRE ET LA CRISE JAPONAISE',
STÉPHANIE GUICHARD,
CEPII WORKING PAPER, No 98-06.

• 'LES MÉCANISMES MONÉTAIRES ET FINANCIERS
DANS LA CRISE JAPONAISE',
STÉPHANIE GUICHARD,

PH D THESIS, UNIVERSITY OF BORDEAUX, DECEMBER 1998.

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FRANCE

THE 20TH ANNIVERSARY OF THE CEPII

The World Economy: 1978 - 1998 - 2018 (Paris, 21 October 1998)

To celebrate its 20th anniversary, the CEPII organised a conference on changes in the world economy, and the challenges of the future. The presentations and ensuing debates reflected concerns over the current shocks to the world economy. The key role of institutions in the national and multilateral regulation were underlined, their weakness being one of the major causes of the crises gripping the world economy today. Adapting these institutions to globalisation is one of the great challenges of the years ahead.

In his opening address, French Finance Minister Mr. Dominique Stauss-Kahn opined that the current world crisis is likely to lead to a challenge of international liberalisation, which nevertheless remains essential for growth. To master globalisation, it is therefore up to policy-makers to shape the rules and reform the institutions of the world economy. The subjects discussed during the conference include:

The Arrival of the Euro

The prospective launching of the euro has largely protected Europe from recent financial turbulence. Yet problems remain, notably: a lack of wage flexibility, and labour mobility, as well as the absence of a federal budget, all of which risk accentuating structural asymmetries in the euro-zone.

The Transition in the East

Openness to the world economy and possible membership of the European Union have favoured structural reform, and the ability of states to create market institutions has been decisive in Eastern Europe. In contrast, Russia's situation has worsened: necessary institutional reform has not taken place, while the international community has not been able to support the transition adequately.

The Crisis of the Emerging Economies

The origins of the economic and financial crisis in the emerging economies is to be found in the macroeconomic policies of the industrialised countries during the first half of the 1990s, notably fiscal austerity in Europe and the inability of Japan to stimulate its economy. Massive investment into Asia followed, supported by the fall of the dollar. When the dollar subsequently rose, competitiveness was hit, leading to large trade deficits. Profitability slumped, provoking a financial crisis and recession. In turn, Asian demand fell, hitting commodity exporters, and hence spreading the crisis. Overcapacity also exists in manufacturing, while demand is weakening in the US and Europe. A return to growth based on renewed competitiveness could be very difficult.

Short and Medium-Term Policies

The stabilisation of the world economy depends on the capacity of the G5 to reflate aggressively. Japan is on the brink of a 1930s-style depression. Several percentage points of GDP must be injected into its economy, and credit channelled to SMEs. Meanwhile, America and Europe should cut interest rates aggressively.

In the medium term, recycled savings from (surplus) industrialised countries to (deficit) emerging countries is a crucial issue, while the international monetary system cannot be stable if US indebtedness persists.

At the same time, institutional investors (especially pension funds) are demanding that firms have a profit rate of 15%, which makes little sense given low inflation and interest rates of 4%.

Lastly, rising liberalisation, greater capital movements and faster technological progress are buffeting companies, leading them to management by functions while activities of national consideration are pushed into the background. Yet, rules, such as accounting norms, have adapted little and vary much across countries. This requires an institution capable of defining the necessary norms.

Globalisation and Institutions

The mismatch between changes in the world economy and the slow evolution of institutions is growing. The world's population will rise to 8.5 billion by 2020, stretching resources. Meanwhile, technical change in production, marketing and communications will affect the economy, offering new opportunities, notably a balancing of the allocation of resources and the integration of isolated producers. But it also threatens widening income disparities, market turbulence and institutional tensions.

Three possible forms of global cooperation appear likely to favour global governance: i) an open discussion similar to that which led to the Bretton Woods institutions in 1946; ii) a shift to permanent contacts across international networks, and; iii) a re-invention of international institutions that reinforces their role and supports permanent work.

Poverty

Such action should not neglect social policy. Poverty will be a major challenge in the coming century. It is generally admitted that technological progress and globalisation have, at least temporary, negative consequences for employment, especially for unskilled labour. To avoid social crises picking up where financial crises leave off, it is necessary to renew social policies and redefine the status of work.

Europe has a threefold role in this area: i) it must strengthen its role in fighting world poverty, ii) it must examine social policy within the euro-zone, and iii) it must take into account the interaction between macroeconomic policy and social policy.

Raymond Barre's concluding remarks expressed some optimism about the future concerning the benefits of technological change, liberalisation of trade and capital movements, the spread of the market mechanism etc. But, global poverty and poverty in the industrialised countries will require new forms of government intervention, including the formulation of new rules and relationships to foster global governance.

Recent Publications

ECONOMIE INTERNATIONALE, QUARTERLY

- No 75, 3RD QUARTER 1998
- *Redistribution régionale et stabilisation par le gouvernement central*
J. Mélitz, F. Zumer
- *Contractions budgétaires et contraintes de liquidité : les cas danois et irlandais*
J. Creel
- *Monopoles naturels, ouverture commerciale et gains de l'échange*
J.-M. Siroën
- *Le différend banane à l'OMC*
C. Laroche Dupraz
- *La hausse des inégalités salariales en Europe centrale au cours de la transition*
A. Pailhé

Workshops

- *L'économie mondiale : 1978-1998-2018*
- *Que reste-t-il du rouble ?*
- No 74, 2ND QUARTER 1998.
DO REGIONALISM AND MULTILATERALISM CONFLICT?, SPECIAL ISSUE
edited by M. Fouquin, J.-M. Siroën
- *La régionalisation du commerce international*
M. Freudenberg, G. Gaullier, D. Únal-Kesenci
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- *Afrique australe : intégration régionale et 'ancrage' à l'Union européenne*
J.-P. Cling

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Publisher: la Documentation française

LA LETTRE DU CEPII, MONTHLY

- *Commerce international et complémentarités régionales*,
D. Únal-Kesenci
No 174, DECEMBER 1998
- *Les peco de l'euro ?*,
A. Bénassy-Quéré
A. Lahrière-révil, M. Maurel
No 173, NOVEMBER 1998

- *Quelles stratégies de stabilisation en Asie ?*,
J. Sgard
No 172, OCTOBER 1998
- *La concurrence internationale : vingt ans après*,
I. Bensidoun, D. Únal-Kesenci
No 171, SEPTEMBER 1998

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FF 305 outside France.
Publisher: la Documentation française

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BOOKS BY CEPII RESEARCHERS AND CONFERENCE PROCEEDINGS

- *THE EMU'S EXCHANGE RATE POLICY*
Proceedings of the second meeting of the French-German Economic Forum, Bonn, 12-13, January, 1998
- *COMPÉTITIVITÉ DES NATIONS*
edited by the CEPII, 240 p., Economica, 1998, FF 198.
- *L'ÉCONOMIE MONDIALE 1999*
edited by A. Chevallier &

D. Pineye, 125 p., Collection Repères, La Découverte, FF 49.

- *THE CHINESE ECONOMY*
Proceedings of the Conference organized by the CEPII, June 25, 1997, Paris, 144 p., Published by Economica, 1998, \$19.95, also distributed by the Brookings Institution (bibook@brooks.edu)

- *ASIA AND EUROPE? A NEW AGENDA AFTER THE CRISIS*
edited by J.-C. Berthélemy and T. Koh.
Proceedings of the Conference jointly organized by the CEPII and the Asia-Europe Foundation, Paris, May 11-12th, published by Singapore World Scientific Publishing Company, 1998, \$52.

CEPII WORKING PAPERS

- *Wages and Unemployment: Trade-off Under Different Labour Market Paradigms*
O. Bontout, S. Jean
No 98-13
- *Structures financières et transmission de la politique monétaire, application à l'Allemagne, la France, l'Italie et le Royaume-Uni*
B. Mojon
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M. Aglietta, C. Baulant, V. Coudert
No 98-10
- *Sensibilité des salaires relatifs aux chocs exogènes de commerce international et de progrès techniques : une évaluation d'équilibre général*,
S. Jean, O. Bontout
No 98-09
- *Evolution sur longue période de l'intensité énergétique*,
P. Villa
No 98-08

- *Sacrifice Ratio in Europe: a Comparison*,
L. Boone, B. Mojon
No 98-07

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Events

SEMINARS AND MEETINGS

- **The Financial Crisis: Lessons for Exchange Rate Management**
M. Camdessus, Director General of the IMF, coorganized by the CEPII, the CGP and the IFRI.

Discussants: A. Bénassy-Quéré (CEPII), D. Cohen (ENS), P. Jacquet (IFRI).
23 December

- **The Exchange Rate of the Euro against Dollar**

M. Aglietta (CEPII), A. Bénassy-Quéré (CEPII), Discussant: H. Monet (Société Générale)

9 December

- **Global Economic Prospects, 1998/1999**

Presentation of the World Bank Report
M. Ahmed (World Bank), U. Dadush (World Bank), Discussants: M. Didier (Rexecode), S. Marti (Le Monde Economie)

2 December

- **The International Monetary, Financial and Trade Architecture**

C.F. Bergsten (IIE), J.J. Schott (IIE), coorganized by the CEPII, the CGP and the IFRI,

Discussant: J.-P. Landau (Ministry of Finance)

1 December

- **East Asia: The Road to Recovery**

Presentation of the World Bank Report
R. Newfarmer (World Bank),

Discussant: J. Sgard (CEPII)

13 November

- **Assessing Aid**

Presentation of the World Bank Report
S. Devarajan (World Bank), Discussant:
J.-C. Berthélemy (CEPII)

10 November

- **Growth and Trade Policies in Southern Africa**

J.-C. Berthélemy (CEPII), D. Bocquet (Ministry of Finance), J.-P. Cling (French Embassy in South Africa)

26 October

- **What is Left of the Rouble?**

M. Aglietta (CEPII), J. Sapir (EHESS),
J. Sgard (CEPII), Y. Zlotowski (CERI)

15 October

- **An Overview of Convergence in the Länder of Eastern Germany**
M. Scheuer (RWI), P. Cour (CEPII)
30 September

- **German Economic Policy**

H. Bonnaz (Ministry of Economics),
P. Cour (CEPII), E. Weiss (FERI)

14 September

- **Economic Policies and EMU (Third session (in Paris) of the French-German Economic Forum, co-organized with the ZEI-Bonn).**

J. Delors, J. Pisani-Ferry (Ministry of Finance), K.-H. Paqué (University of Magdeburg), O. Davanne (Ministry of Labor), H. Flassbeck (DIW), J. von Hagen (ZEI), J. le Cacheux (OFCE), G. Schlebusch (Franco-German Chamber of Commerce), M. Didier (Rexecode).

6-7 July

CONFERENCES

- **The World Economy: 1978-1998-2018**

Conference for the 20th Anniversary of the CEPII

J. Bourdin (Sénat), D. Strauss-Kahn (Minister of Finance), F. Mer (Usinor), M. Albert (Banque de France), P. Mordacq (Cour des Comptes), J.-C. Berthélemy (CEPII), Y. Berthelot (UN-ECE), A. Brender (CPR), J. Pisani-Ferry (Ministry of Finance), C. Sautter (Minister of

budget), J.-M. Charpin (French Planning Agency/CGP),

J.-F. Rischard (World Bank),
J. Shelton (OECD), A. Atkinson (University of Oxford),

R. Blackhurst (IHEI, Geneva),
M. Aglietta (University of Paris X-Nanterre), P. Artus (Caisse des Dépôts et Consignations), J.-L. Beffa (Saint-Gobain), H. Martre (CIREM),
R. Barre (Former Prime Minister).

21 October

- **The Competitiveness of Nations Conference presenting the CEPII's report**

J.-D. Gardere (CFCE), M. Fouquin (CEPII), G. Longueville (BNP),
I. Bensidoun (CEPII), D. Ünal-Kensenci (CEPII), G. Lafay (CGP),
L. Fontagné (CEPII), P.-A. Buigues (EC), F. Mer (Usinor).

23 September

News in Brief

• The CEPII's Deputy-Director Claire Lefebvre moved to the French Ministry of Economics, Finance and Industry in November 1998, where she will be a Deputy-Departmental Head. She has been replaced by Prof. Agnès Bénassy-Quéré, a long-time associate of the Centre. A specialist in international monetary issues, Prof. Bénassy-Quéré will also be in charge of the CEPII's 'international macroeconomics' unit.

• Astrid du Lau d'Allemands was appointed Secretary-General to the CIREM (the CEPII's business club) in September.

• Laurence Boone has joined the Economic Affairs Department of the OECD in November 1998. She has been succeeded by Stéphane Déès, who joined the 'international macroeconomics' unit, in December, to work on the construction of the Centre's new macroeconomic model.

• Benoît Mojon left the CEPII in December to work for the Research Department at the European Central Bank in Frankfurt. He will be replaced in January 1999 by Bronka Rzepkowski, who will work on monetary questions. Philippe Dufaut joined the CEPII's Information Technology team in November.

Forthcoming

• In spring 1999 the CEPII will publish a special edition of its journal, dedicated to presenting a preliminary assess-

ment of the Asian financial crisis (*Economie internationale*, N°76).

THE CEPII'S RESEARCH PROGRAMME IN 1999

■ As approved by the CEPII's Board, the 15th December 1998

The main priorities in the CEPII's research activities in 1999 will continue to be issues relating to Europe and the analysis of global interdependencies. Such research will be carried out primarily by the CEPII's 'international macroeconomics' and 'international trade' units.

A New Macroeconometric Model

For 1999-2000, the CEPII has planned to build a new macroeconometric model, to analyse economic policies in Europe, and to formalise asymmetric behaviour in particular. Preliminary consultations on the feasibility and applications of the model with its main potential users were undertaken in 1998, and the goal now is for the model to be operational by 2001.

The International Monetary and Financial System

At the behest of the Board, the CEPII will intend to set up a trans-Atlantic workshop to examine the instability and mutations of the international monetary and financial system. Two meetings will be held in 1999, and in spring 2000 a final session will present the work and policy proposals to policy-makers. Issues covered include financial deregulation, market instability, financial crises and systemic stability. A complementary project will continue work on international savings transfers, institutional investors and growth regimes.

Trade Liberalisation

Given new and on-going international negotiations within the WTO framework, and/or the pursuit of bilateral (trans-Atlantic) trade negotiations, the CEPII's 'international trade' unit will examine the questions raised by further trade liberalisation, and in particular trade relations between the United States, Europe and Japan. Specific attention will be given to the relationship between liberalisation and market structure in the rich countries.

Productivity and Competitiveness

Work will also be continued on the matter of competitiveness, notably with respect to productivity comparisons. The causes and manifestations

of productivity in France, Germany and the United States - a previous area of study - will be revisited in the light of recent developments.

China, Japan and the Far East

Considerable research will also be done on Asia and the Far East. Three separate projects will seek to examine the renewal of the Japanese economy, the underlying changes in the real economy that are necessary to tackle the Asian crisis, and the outlook for Chinese competitiveness.

Russia

Other work by the 'emerging and transition economies' unit will focus primarily on Russia and how the present crisis is weighing heavily upon its integration into the world economy. Much emphasis will be placed on external trade and financial relation of Russia with western economies. It will draw on a collaboration with the IMEMO, the CEPII's traditional partner in Russia.

The Transition Economies

Other projects in the 'emerging and transition economies' unit will also examine: the future of Central and Eastern Europe companies given the integration of this economies into the EU (with special emphasis on Hungary); the outlook of Euro-Mediterranean relations, and Africa's emerging countries.

CHELEM

The CEPII's Harmonised Accounts on Trade and the World Economy database (CHELEM) will be updated, as every year. The database's geographic detail will be further expanded, to provide more information on the CEEC and the CIS countries, as well as a fully-revised balance payments database. The next CHELEM CDROM will have a WINDOWS interface, and is to be released in May 1999.

CEPII

CENTRE D'ETUDES PROSPECTIVES
ET D'INFORMATIONS
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