The CEPII NEWSLETTER

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CENTRE D'ÉTUDES PROSPECTIVES
ET D'INFORMATIONS INTERNATIONALES

Focus

The Outlook for Growth in Asia

East Asia's return to growth after the 1997 financial crisis has surprised many. Favourable macroeconomic policies and a supportive external environment have spurred on recovery. Nevertheless, much still needs to be done in terms of restructuring finance and industry, and the necessary reallocation of resources may not yield growth rates as high as those before the crisis.

A year ago, recovery in the wake of the financial collapse in Asia, in 1997, looked shaky. The crisis was often interpreted as structural, questioning a form of growth based on the massive accumulation of capital accompanied by limited productivity gains. In short, the crisis indicated that East Asia had to shift from extensive growth to intensive growth. The restructuring of the financial sectors and companies required for capital efficiency to improve, however, looked to be a long task. Also, these economies had embarked on hazardous diversification in recent years, due to competitive pressure from China and unreasoned foreign capital inflows. Some of these investments will be lost for a long time, as will investments in property. Yet, 1999 saw a remarkable rebound in the region, with the exception of Indonesia, which continued to suffer from an economic and especially political crisis (see Graph).

Overall, the pre-crisis healthy state of public finances has allowed the authorities to stimulate demand and facilitate the restructuring of banking and industry. Fiscal expansion has boosted domestic consumption, especially in Korea. At the same time, while monetary policy became highly restrictive at the beginning of the crisis - to prevent inflation, stabilise exchange rates and build up reserves - it has subsequently been relaxed.

> The region has benefited from strong export growth, thanks to currency devaluation.

But above all, the region has benefited from strong export growth in 1999, thanks to currency devaluation. (In Korea, Thailand and Malaysia, the real currency depreciation was still in the order of 30% during the third quarter of 1999, whereas the real parity of Indonesia's currency has returned to its pre-crisis levels.) It has also profited from a favourable external environment: sustained American demand (the United States takes 20% of exports from Thailand, Malaysia and Indonesia, and more than 40% of exports from the Philippines); the recent rise of the yen (favouring Korea in particular as it is Japan's main competitor in third markets); strong demand in the electronics sector (benefiting notably the Philippines and Malaysia, as about 50% of their exports are in this sector); and a pick-up in intra-Asian trade. Once the first signs of an upturn were registered, capital movements began shifting back towards East Asia, though to a lesser extent than before the crisis.

All that said, the recovery remains fragile and subject to certain risks. Internally, banking and industrial restructuring must be followed through, if confidence is to be consolidated, and growth is to have strong foundations. Concomitantly, the costs in taxation of restructuring are likely to limit the room for manœuvre of monetary and fiscal policy. Lastly, current favourable trends should not prevent the examination of factors that could limit potential growth in the medium- to long-term.

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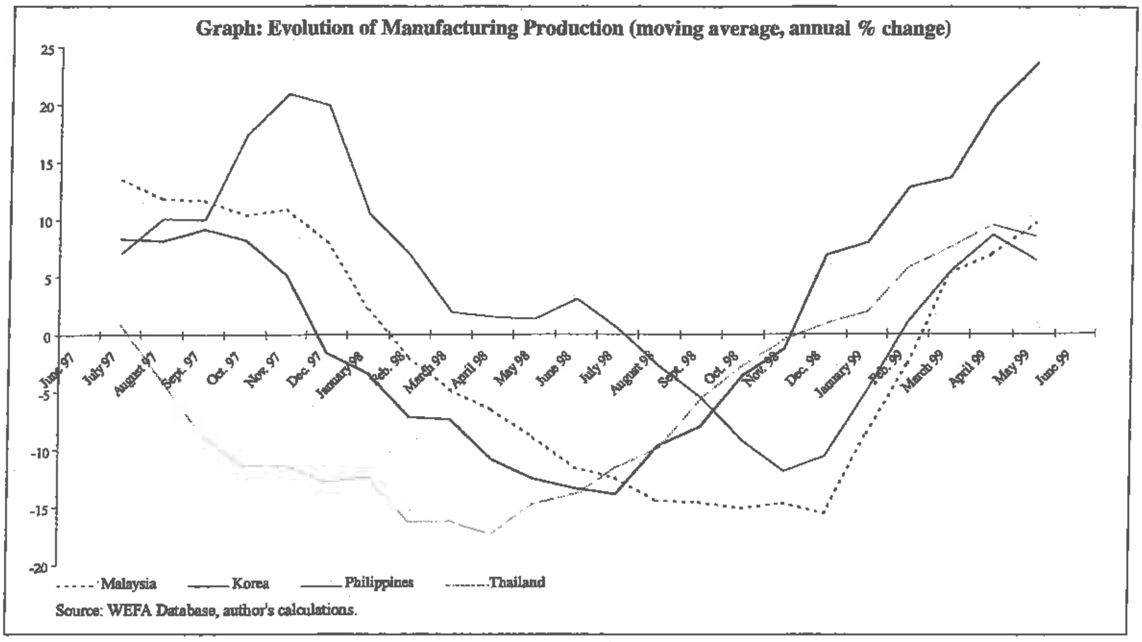

First, a slowdown was predictable even before the crisis, due to the extensive nature of the growth process at work. Second, certain structural changes which contributed favourably to growth in the area prior to the crisis may be halted in the medium term, and this in turn may slow down activity in the future. For instance, industrial restructuring risks being accompanied by a fall in export diversification, although this need not be detrimental in the long term, if it is accompanied by rationalisation. Similarly, banking restructuring to improve transparency and prudential regulation should favour a better allocation of resources.

Structural factors will likely hold down growth below levels previously experienced in the region.

Using a neo-classical production function estimated from panel data for the East Asian countries for the years 1968-1996, the authors have constructed medium term growth scenarios for 1996-2010. These scenarios include both the effects of the reduction of growth through catch-up and the consequences of the crisis in terms of a slowdown in structural change. On the first point, it was assumed that the rate of savings is constant (external savings held to be zero over the long term). On the second point, various assumptions have been made. Above all, the degree of openness of these countries and their economic diversification are assumed to have peaked before the crisis. Next, by using credit as a proxy for the level of financial development, it is considered that financial deepening should remain at least at its level before the crisis, despite the reduction of momentum in this area, brought about by the need for restructuring. Furthermore, two scenarios have been put forward concerning the sectoral reallocation of factors and human capital accumulation:

1) the higher scenario assumes that both variables will follow a regular path, as was previously the case;

2) the lower scenario assumes that given the social consequences of the crisis, the propensity of rural workers to quit agriculture has been halted, which will reduce the contribution of the reallocation of factors to growth, while educational progress is also stopped, as people exit the educational system due to the rise of poverty.

The Table indicates a clear fall in growth in both cases. For Malaysia, the slightly faster rates of growth stem from both the higher savings rate (observed in recent years), and from faster workforce growth than elsewhere.

Coming on the heels of the Mexican crisis in 1994-1995, the Asian crisis has stressed once more the inherent risks associated with financial globalisation and the attendant instability of financial flows. If recovery is now firmly underway, the outlook for the region is much less bright than previously, while the process of restructuring is likely to slow growth everywhere compared to previous trends.

Table: Medium-Term Growth Scenarios (in %)

	1996/2010 *(high)*	1996/2010 *(low)*
Korea	4.0	3.4
Malaysia	4.9	4.2
Philippines	3.6	3.0
Thailand	3.4	2.3

Source: authors' calculations.

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FOR FURTHER INFORMATION SEE:

• 'STRUCTURAL CHANGE IN ASIA AND GROWTH PROSPECTS AFTER THE CRISIS', J.-C. BERTHÉLEMY AND S. CHAUVIN *CEPII WORKING PAPER, FORTHCOMING*

RESEARCH SUMMARY

The Impact of Fluctuations of the Dollar on European Industry[1]

The past fourteen months have shown that the exchange rate volatility of European currencies against the dollar and the yen has not decreased since the introduction of the euro, on January 1st 1999. It has also become clear that the ECB has little intention of influencing the euro/dollar exchange rate. This indifference of the ECB, however, does not mean that European industries have suddenly become less exposed to competition from the dollar zone. Furthermore, it seems that asymmetries between European countries and across industries persist. For the present, the euro-zone as a whole is benefiting from competitive gains due to depreciation, but any future appreciation of the euro will obviously affect the euro-zone's industries to differing degrees. This in turn could render market integration more difficult.

Opponents of the single currency have feared that a strong appreciation after its creation would have held back Europe's recovery. Yet, from January 1999 through to December 1999, the euro actually fell by 17% against the dollar. Throughout this period, the authorities let it be known that the ECB did not have any exchange rate objectives. This indifference to the euro/dollar parity, however, does not mean that the exchange rate has no impact on growth in Europe. Simulations conducted by the CEPII[2] for France have shown that a 10% depreciation of the dollar would lead to a cumulated loss in industrial activity of 2.5%, and vice-versa. Such a loss would also affect other sectors. But, apart from such macroeconomic effects, it is clear that certain industries are especially sensitive to variations in the exchange rate.

The CEPII has constructed an indicator which takes into account the fact that the dollar zone (i.e. the zone of currencies which fluctuate more or less in conjunction with the dollar) is larger than just the US economy. In particular, most Asian emerging countries belong to the dollar zone, as do countries in Latin America. Present exchange rate stabilisations, in the wake of the monetary and financial crises which began in 1997, indicate some return to the dollar as an anchor currency, even if such links are now less rigid. In Asia, China and Hong-Kong, which did not devalue their currencies, have reinforced these trends, and act as a sort of pivot for the region.

Certain sectors, notably Information Technology and textiles, are very exposed to euro-dollar fluctuations.

Exposure to the dollar zone is thus measured in a way that takes into account both competition by imports into the Single European Market, as well as competition to exports in the dollar zone and in third markets. Table I summarises the results obtained for certain industries. For imports of manufactured products, the share of goods coming from the dollar zone is equivalent to 5.8% of supplies in the Single Market, with 86.7% of goods provided by European producers. The exposure index of European producers to competition of dollar zone products in EU markets is thus the pro-

Table I: Sensitivity of Sectors of the European Union to Competition of the Dollar Zone, 1996

	European Union			*Dollar Zone*			*Other countries*	Total	Relative position
	Share of EU production	Market share of dollar zone	Indicator	Share of EU production	Market share of dollar zone	Indicator	Indicator		
Total Manufacturing	**86.7**	**5.8**	**5.0**	**7.9**	**90.5**	7.1	**0.3**	**12.4**	**0**
Computer and office equipment	77.6	27.4	21.3	12.7	82.9	10.6	2.1	33.9	22
Leather products and shoes	69.7	22.5	15.7	17.0	85.5	14.5	2.4	32.5	20
Transport equipment except cars	80.3	15.5	12.4	16.5	89.3	14.8	0.7	27.9	16
Clothing	82.4	16.1	13.3	6.7	95.8	6.5	2.5	22.2	10
Textiles	83.8	8.1	6.8	6.1	95.5	5.8	0.6	13.1	1
Cars	85.6	2.5	2.1	7.7	88.2	6.8	0.3	9.2	-3
Beverages	90.5	2.2	2.0	6.2	95.3	5.9	0.1	8.0	-4
Iron and steel	89.6	1.3	1.2	6.8	89.1	6.0	0.1	7.3	-5
Food products	96.5	2.5	2.4	1.7	98.0	1.7	0.1	4.2	-8
Tobacco	97.8	1.1	1.1	1.5	98.7	1.5	0.1	2.6	-10
Printing and publishing	97.0	0.8	0.8	1.4	98.9	1.3	0.0	2.2	-10

Source: see Fouquin et al., forthcoming

(1) This study was carried out by M. Fouquin, N. Mulder and L. Nayman at the CEPII, together with K. Sekkat and J. Malek at the Free University of Brussels who estimated the sensitivity of European exports to dollar fluctuations. This research was granted financial support from DG II.

(2) 'L'impact sectoriel du taux de change du dollar', *La Lettre du CEPII*, September 1997.

Table II: Characteristics of Several European Industry and Product Markets, 1996

	Share in employment (%)	Share in production (%)	Global rate of protection (as a % of retail price)	Degree of product differentiation	Concentration ratio (a)	Arlington demand elasticity	Sensitivity to competition (relative to the mean)
Computer and office equipment	1.1	1.1	9.6	High	71.0	1.5	22.0
Leather products and shoes	2.2	0.9	11.4	Low	7.3	8.0	20.0
Transport equipment except cars	3.5	2.7	7.5	High	39.3	1.5	16.0
Clothing	4.5	1.9	31.4	Low	6.7	8.0	10.0
Textiles	5.8	3.2	20.3	Low	9.6	8.0	1.0
Cars	8.2	7.7	14.6	High	47.0	1.5	-3.0
Beverages	1.4	2.6	22.5	High	26.3	1.5	-4.0
Iron and steel	3.7	3.5	17.7	Low	38.3	3.0	-5.0
Food products	11.6	9.5	30.4	High	19.2	1.5	-8.0
Tobacco	0.3	1.6	66.6	High	56.0	1.5	-10.0
Printing and publishing	5.6	4.7	7.5	Low	9.0	4.0	-10.0
Total	100.0	100.0	11.0		22.3		0.0

(a) Share of the five largest firms in production of the European Union (less Austria, Finland and Sweden).
Source: see Fouquin et al., forthcoming

duct of the first two indices, or 5%. To this should be added competition for exports to the dollar zone (7.1%) and in third markets (0.3%), calculated for each country. Overall, the average exposure index of European producers to competition from the dollar zone is thus 12.4%. The greater the value of this indicator, the greater the level of competition.

Information Technology is the most exposed sector to competition from the dollar zone, with an index value of 34%. Such competition comes both from the United States and emerging Asian countries. The least exposed sector is press and publishing, both strong cultural activities.

Furthermore, the study shows there is a strong asymmetry among European countries concerning exposure to the dollar. The United Kingdom is the most exposed, large European country, with a global indicator of 16%, whereas France is the least exposed, with an indicator of less than 11%. For France, this is somewhat paradoxical as it is the country in which policy-makers are especially sensitive to the question of dollar exposure. To be sure, some sectors are exposed, such as aeronautics, which is a very strong export sector for France, and which is the most exposed sector in all European countries.

The United Kingdom is the large European country the most-exposed to currency fluctuations against the dollar, and France the least.

Exposure to competition is one of the reasons explaining the sensitivity of a given sector to fluctuations in the value of the dollar. But, other structural characteristics must also be taken into account. To this end, a certain number of indicators have been summarised in Table II. Protectionism, which limits access to the Single Market, would reduce sensitivity to dollar depreciation, in particular if trade barriers are quantitative. The most protected sectors are food & agriculture, textiles and iron & steel.

A more-or-less strong degree of product differentiation is associated with a more-or-less high level of price elasticity of demand. From this point of view, the food & agriculture sector would appear to be little sensitive to prices, whereas textiles are strongly sensitive, with iron & steel in an intermediate position.

Lastly, food & agriculture as well as iron & steel are relatively little exposed to competition from the dollar zone, but textiles are highly exposed. Overall the textile sector is probably the most vulnerable to competition from a weak dollar.

In the months preceding its birth, macroeconomists generally foresaw an appreciation of the euro. Its current weakness is thought to result from very strong growth in the US, which counterbalances its massive external trade deficit. A reversal of the euro/dollar exchange rate trend, which will happen sooner or later, will put pressure on sectors most exposed to competition of the dollar zone. These sectors will also be the most important actors in the next international trade negotiations.

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FOR FURTHER INFORMATION SEE:

• 'IMPACT DES FLUCTUATIONS DU DOLLAR SUR L'INDUSTRIE EUROPÉENNE'
'THE IMPACT OF FLUCTUATIONS OF THE DOLLAR ON EUROPEAN INDUSTRY',
M. FOUQUIN, N. MULDER AND L. NAYMAN (CEPII)
K. SEKKAT AND J.M. MANSOUR
(FREE UNIVERSITY OF BRUSSELS)
CEPII WORKING PAPER, FORTHCOMING.

The CEPII Research Programme in 2000

This programme requires final approval by the CEPII's Board, and may be subject to changes.

The Centre's research programme this year will be spread fairly evenly across the CEPII's three research units.

The International Macroeconomics Unit

Work on the CEPII's **new multinational model** is going ahead, with a first operational version of the model planned for December 2000. Estimates for the model will also be used in a study on the impact of a possible downturn in the American stock markets, via wealth effects on household income.

As a rational expectations model, the new CEPII model requires the construction of long run growth projections for the 17 countries included in the first version. These growth trends are used in a joint project with the Institute of Economics and Politics of Energy (IEPE, Grenoble), the Institute for Prospective Technological Studies (IPTS, Seville, Spain) and the CIRED-CNRS (Paris), to analyse **the economic consequences of green-house gas reductions.**

This year will see the completion of a joint project with the OFCE and the University of Paris X examining the **links between growth, demographic ageing and capital movements.** A model (INGENUE) is being constructed to provide scenarios for net capital transfers linked to demographic developments, and to analyse the capital flows that will be required to support unequal economic growth across the world.

In 1999, the CEPII undertook some research on **the "new architecture" of the international, monetary and financial system.** The year 2000 will see this work being extended, with special attention being paid to European financial markets. In particular, new work will examine the correlation of European stock market movements in major sectors, compared to the correlation of national, stock price shifts. Work will also be carried out to examine the impact of taxation on Foreign Direct Investment within European countries.

The International Trade Unit

Recent **assessments of protectionism** by WTO members (such as the EU) suggest that average levels may be between 13 and 14%, due largely to non-tariff barriers (Messerlin, 1999), as opposed to more generally-accepted levels of 4 to 5%. If true, such figures would greatly modify the outlook for trade negotiations. Work by the CEPII in this area aims at confirming such new estimates for Europe, and assessing the situation for the US and Japan. It will also examine tariff peaks on a sectoral basis.

Theory generally presents international trade as raising welfare. Yet does trade liberalisation always favour competition and hence produce a fall in market concentration? In particular, certain industries (like aeronautics, IT and pharmaceuticals) may have very high fixed costs, with market concentration actually being favoured by trade liberalisation. The CEPII's work in this area will strive to analyse the **determinants affecting the relationship between trade and market structure.**

Another major project currently underway focuses on **productivity comparisons in manufacturing between France, Germany and the United States.** This picks up from previous research conducted by the Centre, which used 1987 as a base year for productivity calculations. The new study will be able to include the significant economic developments of the 1990s, such as German reunification and accelerated productivity growth in the United States.

Other work by the Unit includes: *i)* a study of the **reconstruction of Japanese capitalism** and how the socio-economic values which underpinned the country's post-war success and their attendant institutions are evolving; and *ii)* a joint project involving researchers and institutes in 8 other European countries, North America and Japan, examining **the contributions of traditional factors of production (capital, labour, energy, intermediate products and services) as well as determinants of the 'new' economy (investment in IT) to growth.**

The Transition and Emerging Countries Unit

China's entry into the WTO indicates a clear commitment by Beijing to pursuing openness and economic reform. It will lead to changes in market conditions internally and externally. The CEPII will seek to examine the adjustment of China's state enterprises to this new, competitive environment, the role of foreign investment (in the wake of the Asian crisis) and the outlook for exports, which are growing once again, following a strong slowdown in late 1998 and early 1999. This research should lead to a book on **China as an emerging economy,** in early 2001.

Research on **Russia** both as a transition economy and as a possible market will also go ahead. A joint conference is to be held with IMEMO in 2000, examining Russia's position in globalisation. Russia as a market for its trade partners will also be studied in a parallel project.

The Asian crisis has rekindled the debate on **exchange rate regimes for developing economies.** While many countries presently favour flexible exchange rates, this may not be the most appropriate regime for emerging economies. Under certain conditions, currency boards could be an alternative. The CEPII will study the various options available, probably using Argentina as a key example of the operation of currency boards.

In 1999, the CEPII launched a collaborative project assessing the **comparative productivity levels in the Mediterranean countries,** with support from the EU (FEMISE). Results relating to Egypt, Morocco, Turkey, as well as Portugal and Spain should be available at the end of 2000.

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Recent Publications

ECONOMIE INTERNATIONALE, QUARTERLY

• No 80, 4TH QUARTER 1999.

• *'Les pays d'Europe centrale et orientale dans la division du travail en Europe'*
F. Lemoine, M. Freudenberg

• *'Ouverture, intégration et spécialisation, quel impact sur la croissance en Europe ?'*
A. Colecchia

• *'Du marché unique à la monnaie unique : l'impact sectoriel de l'euro'*
A. Dierx, F. Ilzkovitz

• *'Marché unique et pays tiers'*
P.-A. Buigues, C. Martinez-Mongay

• No 79, 3RD QUARTER 1999.

• *'Les fondements macro-économiques de la compétitivité'*
C. Couharde, J. Mazier

• *'Oligopoles et choix de politique commerciale'*
J.-M. Siroën

• *'Fuite des cerveaux et formation du capital humain'*
F. Docquier, H. Rapoport

• *'La coopération économique informelle : le cas du G7'*
F. Genest

• *'Exportation et création d'entreprises industrielles'*
G. Hountondji

• No 78, 2ND QUARTER 1999.
UN SIÈCLE D'ARCHITECTURES FINANCIÈRES INTERNATIONALES

• *'La grande «retransformation» ? Intégration financière internationale et contrôles de capitaux, 1880-1997'*
M. Flandreau, C. Rivière

• *'Quelle autonomie pour les politiques monétaires sous l'Étalon-or, 1880-1913 ?'*
R. Contamin, C. Denise

• *'Institutions économiques et intégration des marchés internationaux de capitaux : le cas du Japon pendant l'Ère Meiji'*
N. Sussman, Y. Yafeh

• *'Vu du pont : l'Étalon-or de l'entre-deux-guerres était-il un «régime» ?'*
K. Mouré

• *'Les réparations allemandes, 1920-1933 : une controverse revue par la théorie des jeux'*
A. Ritschl

• *'Le passé d'une région : les relations monétaires entre Hong-Kong et la Chine dans les années quarante'*
C. R. Schenk

Price:
FF 118 per issue,
FF 440 annual subscription in Europe, and FF 465 outside Europe.
Publisher: la Documentation française

LA LETTRE DU CEPII, MONTHLY

· *'A Single Currency, a Single Tax System?'*,
A. Bénassy-Quéré, A. Lahrèche-Revil
No 185, DECEMBER 1999

· *'Openness, Competition and Multilateralism'*,
M. Fouquin, G. Gaulier
No 184, NOVEMBER 1999

· *'Is the Japanese Crisis Over?'*,
S. Guichard
No 183, OCTOBER 1999

· *'The ECB and the euro'*,
A. Bénassy-Quéré
No 182, SEPTEMBER 1999

· *'What Should be the Framework for Opening up to the International Economy?'*,
J.-L. Guérin
No 181, JULY-AUGUST 1999

LA LETTRE DU CEPII is published in French.

Price: FF 311 (47.50 euros) outside France.

Publisher: la Documentation française.

English versions of this French publication are now available on the CEPII's web-site, one month after publication:
http://www.cepii.fr

BOOKS BY CEPII RESEARCHERS AND CONFERENCE PROCEEDINGS

• *LA DÉFAITE FINANCIÈRE DU JAPON*

by S. Guichard, 159 p., Economica, Octobre 1999, FF 98.

• *L'ÉCONOMIE MONDIALE 2000*

edited by I. Bensidoun & A. Chevallier, 125 p., Collection Repères, La Découverte, FF 49.

CEPII WORKING PAPERS

• *'Exchange Rate Strategies in the Competition for Attracting FDI'*
A. Bénassy-Quéré, L. Fontagné, A. Larhèche-Revil
No 99-16, DECEMBER.

• *'Groupe d'Echanges et de Réflexion sur la Caspienne - Recueil des comptes-rendus de réunion (décembre 1997 - octobre 1998)'*
CEPII - ministère des Affaires étrangères (Textes réunis par D. Pianelli, G. Sokoloff)
No 99-15, NOVEMBER.

• *'The Impact of Foreign Exchange Interventions: New Evidence from FIGARCH Estimations'*
M. Beine, A. Bénassy-Quéré, C. Lecourt
No 99-14, SEPTEMBER.

• *'Reduction of Working Time/Eastward Enlargment of the European Union, 5th meeting, Paris, July 6-7 1999'*
Franco-German Forum, CEPII-ZEI-University of Bonn'
No 99-13, SEPTEMBER.

• *'A Lender of Last Resort for Europe'*
M. Aglietta
No 99-12, JUNE.

The full text of Working Papers is available on the CEPII's web-site:
http://www.cepii.fr

Events

SEMINARS AND MEETINGS

- **Tax Harmonisation and the Location of Industrial Activity in Euroland**
M. Didier (Rexecode), A. Bénassy-Quéré (CEPII)
9 December

- **Global Economic Prospects, 2000**
Presentation of the World Bank Report
M. Nabli (World Bank), J.-C. Berthélemy (CEPII)
7 December

- **The Strengths and Weaknesses of Japanese Industry**
A. Nakajima (Industrial Bank of Japan)
30 November

- **Demographics, Pension Funds and International Financial Equilibria**
M. Aglietta (CEPII), J. Le Cacheux (OFCE), J. Fayolle (OFCE), B. Rzepkowski (CEPII)
23 November

- **The Outlook for the Oil Market in the Medium and Long Term**
N. Kousnetzoff (CEPII), M. Valais (Elf-Aquitaine)
6 October

- **Is Latin America Shifting to Dollarisation?**
R. French-Davis (ECLAC)
20 September

- **Presentation of 'Economie mondiale 2000'**
J.-D. Gardère (CFCE), J.-C. Berthélemy (CEPII), J-.L. Terrier (Credit Risk International), A. Brender (CPR), Loïc Cadiou (CEPII), O. Garnier (Société Générale), H. Paris (DP), M. Aglietta (CEPII), A. Bénassy-Quéré (CEPII), D. Plihon (University of Paris XIII), N. Ricoeur (CDC)
16 September

- **Reduction of Working Time**
- **Eastward Enlargment of the European Union**
Franco-German Economic Forum, 5th meeting,
A. Börsch-Supan (University of Mannheim), G. Cette (CAE), S. Collignon (BMWI), J. Fayolle (OFCE), A.-T. Mocilnikar (CGP), M. Wiedemeyer (Hans-Blöckler Stiftung)
6-7 July

CONFERENCES

- **Exchange Rate Regimes in Emerging Market Economies**
International Conference organised by the ADB Institute, the CEPII and the KIEP.
17-18 December

Session 1: Lessons From Recent Crises
D. Rosati (National Bank of Poland), S. Collignon (BMWI), D. Gros (CEPS), G. Larrain (Ministry of Finance, Santiago), L.A. Pereira da Silva (The Export-Import Bank of Japan), Y.C. Park (Korea University), Y.J. Wang (KIEP), J. Williamson (IIE)

Session 2: Options for the Future
J. Williamson (IIE), P. Bofinger (University of Wuerzburg), P. Andonov (Embassy of the Republic of Bulgaria in Tokyo), L. He (Chinese Institute of Finance and Banking), E. Ogawa (Hitotsubashi University), K.C. Chan (Hongkong University)

Session 3: The Choice of an Exchange Rate Regime Revisited
M. Yoshitomi (ADBI), K. Fukao (Hitotsubashi University), P. Masson (IMF), T. Ito (Japanese Ministry of Finance), G. Yi (Bank of China)

Session 4: The Regional Dimension
K.T. Lee (KIEP), P. Mauro (IMF), R. McCauley (Bank for International Settlements), K. Ohno (ADBI), S. Collignon (BMWI), T. Ito (Japanese Ministry of Finance), B. Coeuré (French Ministry of Finance), A. Bénassy-Quéré (CEPII), S. Takagi (ADBI)

Keynote Speeches: P. Krugman (MIT), J. Williamson (IIE)

Papers available: www.cepii.fr

News in Brief

- Jean-Claude Berthélemy left the CEPII in January 2000. During his time as Director, he strengthened the Centre's work on the developing countries, and also contributed to the expansion of the CEPII's Business Club, the CIREM. We wish him all the best for the future.

- Prof. Lionel Fontagné of the University of Paris I has left the CEPII as a scientific advisor on international trade. He has been succeeded by Prof. Antoine Bouët of the University of Pau, as of January 2000.

- Anne Oheix and Isabelle Verhaeghe have joined the CEPII and the CIREM (the CEPII's Business Club) respectively, as secretaries.

- Agnès Bénassy-Quéré, Deputy Director of the CEPII has been appointed to the *Commission Economique de la Nation* (National Economic Committee) at the French Ministry of Finance. The Committee is chaired by the Minister of Finance, and it meets four times a year in order to analyse economic forecasts and to discuss economic policy issues.

- The CEPII has joined the European Network of Economic Policy Research Institutes (ENEPRI). This Network brings together leading, national institutes from 8 European countries. It aims to coordinate research agendas on European policy issues, and to disseminate the research of its members. Its first research program concerns macroeconomic aspects of welfare policies. Several conferences will be organised by ENEPRI on this topic during the coming three years, with the support of the European Commission (DG Research).

- Members of the CEPII's "International Trade" Unit have carried out a number of visits to the WTO, the UNCTAD, the World Bank, the IMF and the Institute for International Economics (IIE - Washington), as well as the Royal Institute of International Affairs, the LSE and the University of Sussex (United Kingdom) over the last few months, as part of the Centre's work on multilateral trade negotiations.

Forthcoming

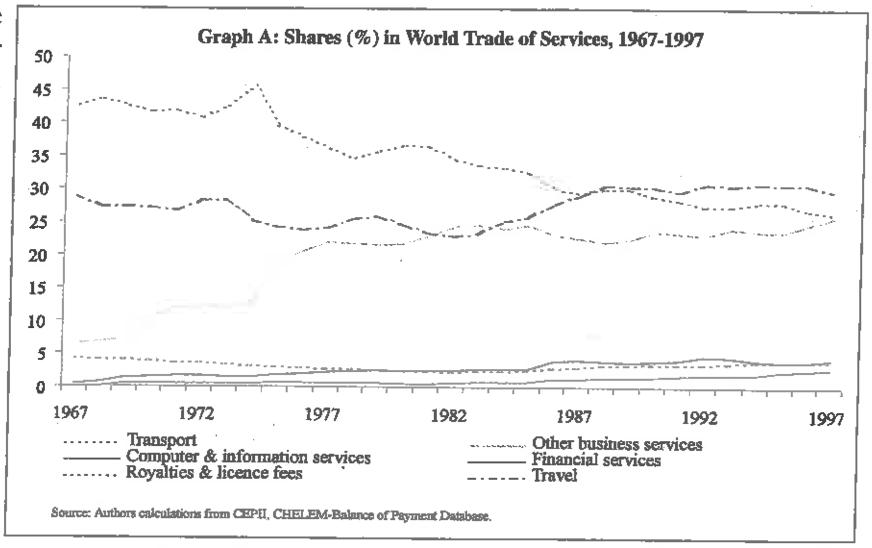
- The CEPII's Business Club and the CEPII are organising a conference on an European economy next June, in Paris.
- The first ENEPRI Conference will be hosted by the CEPII, on asymmetries in EU labour markets, in September, in Paris.

- The Franco-German Economic Forum, co-hosted by the CEPII and the ZEI (University of Bonn), will hold its next meeting in July, in Paris. It will examine trade policy in view of multilateral trade negotiations, and the evolution of the European banking industry.

- The CEPII's Internet web-site (www.cepii.fr) is being updated and re-styled. The new version will be on-line during the first half of 2000.

THE CHELEM DATABASE

Services in the Millenium Round

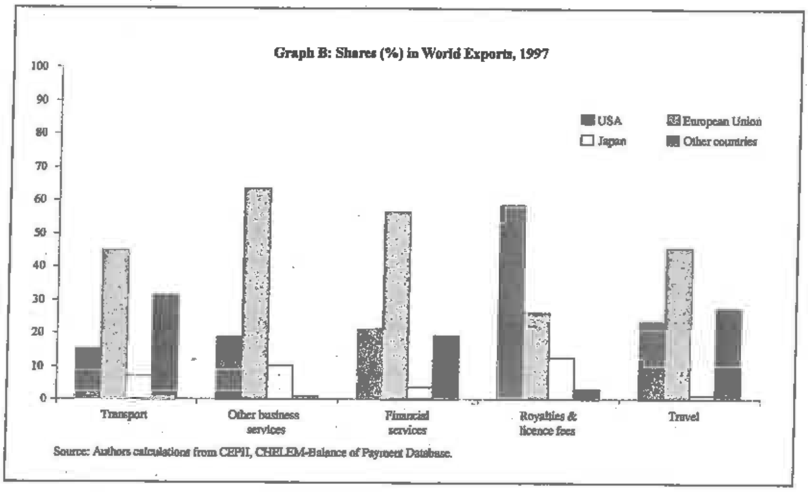


International trade in services accounts for only a quarter of total world trade. Over the past three decades, it has grown only slightly faster than trade in goods. This is surprising, as the share of services in national economies has risen strongly to about two thirds of GDP in high-income countries and half of GDP in developing countries. One major explanation of this paradox lies in the many barriers that exist to trade in services. The GATS (1995) was the first major step to reducing these barriers: the Millenium Round should pursue this.

Yet, the stagnant growth of overall trade in services concealed large changes in its composition: the shares of financial services, communication and computer services, as well as other business services (advertising, engineering, legal services, consulting etc.) have increased strongly, mainly at the expense of transport (Graph A).

Major support for trade liberalisation in services comes largely from the United States and the European Union, which together accounted for 60% of world exports and 51% of world imports of services in 1997. These countries' combined shares in the growth markets are even higher: 78% in financial services and 83% in other business services in 1997 (Graph B).

Most developing countries are net importers of services. Many of them consider further liberalisation of trade in services as a threat, as they fear that domestic service suppliers may be unable to compete with foreign firms. Liberalisation will probably worsen their current trade balance in the short run. Nevertheless, developing countries are aware that more open markets will improve the quality of their business, communications, financial and transport services. This in turn will favour their own exports of goods and services.



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