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CENTRE D'ETUDES PROSPECTIVES
ET D'INFORMATIONS INTERNATIONALES

CONTENTS:

FOCUS

Long Term Growth Prospects

Although very difficult, projecting world GDP for industrial as well as developing countries in the long run is a useful exercise. For instance, policies related to infrastructure, education, pensions or climate change are based on such long-run projections, and multinational firms also need to have an insight of the distribution of future growth across the world.

Using an augmented Solow growth model, Poncet (2006) recently released a set of long-run projections for 170 countries at the 2050 horizon. In this framework, growth stems from three driving sources: labor force, capital accumulation and total factor productivity (TFP). Labor force growth is subject to the latest demographic projections from the United Nations and the assumption of stable unemployment rates and constant hours worked per employee. In turn, capital accumulation is measured using projected values of investment rates based on domestic savings behavior estimated econometrically. Finally, projections of TFP growth rely on a recent generalization of the Nelson-Phelps catch-up model of technology diffusion. These projections of GDP in volume are supplemented with projections of real exchange rates based on a simple Balassa-Samuelson effect, where catching-up countries are supposed to experience an exchange-rate appreciation in real terms.

Results suggest that China’s GDP in 2050 could represent 22% of world GDP (accounting for the projected real appreciation of the renminbi). Indeed, between 2005 and 2050, China and India could experience a 13-fold and a 10-fold increase in GDP respectively. Over the same period, GDP for developed countries would almost double (Germany, France and Japan) and, for some, triple (US). We expect the list of the world’s ten largest economies to be quite different in 2050 than in 2005. However, over the next 50 years, the United States will unlikely lose the first rank in the world GDP hierarchy.

Based on these GDP forecasts the MIRAGE model has been simulated to provide projections of world trade. MIRAGE is the multi-region, multi-sector computable general equilibrium model developed jointly by CEPII and INRA to analyze trade policies. In the model, total factor productivity is computed endogenously in a first simulation to fit the macroeconomic projections in each country or region. MIRAGE results show a threefold increase of China and India's exports between 2001 and 2030, while it would be a twofold increase for developed countries.

These trade projections, together with the long-run projections of GDP, have been used by Bénassy-Quéré *et al.* (2007) to shed some light on the implications of various IMF quota formulas for the quota shares of 49 countries or zones up to year 2030. On September 18, 2006, the Board of Governors of the International Monetary Fund adopted a resolution requesting an agreement on a new quota formulas by the 2007 Annual meeting or no later than the 2008 Spring meeting. The new formula should be simpler, more transparent, and should allow for a better representation of developing and emerging countries. However, the different formulas envisaged do not bear the same implications in the long run, especially for large, fast-growing countries such as China, but also for the position of the European Union compared to the United States. For instance, with the so-called "Japanese" formula (50% GDP, 50% current openness), the share of the Eurozone drops by over six percentage points from 2001 (base year) to 2030, whereas the share of the United States stays constant and that of China more than doubles. In this formula, removing intra-Eurozone flows, as it has sometimes been suggested, is equivalent to a four percentage point drop in the Eurozone share. Finally, it is shown that the only way to efficiently increase the share of Sub-Saharian African countries is to include population rather than GDP in the formula. Such solution would be simpler and more transparent than currently discussed ones of including GDP in purchasing power parity.

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ON THE RESEARCH AGENDA

How Remote is the Offshoring Threat for Services?

In 1995, Richard Freeman asked "Are your wages set in Beijing?". He was referring to the large increase in "manufactured imports from third world countries." A decade later it would be more appropriate to say: "Are your wages set in Bangalore?". In *The World is Flat*, Thomas Friedman (2005) mentions "Indian entrepreneurs who wanted to prepare my taxes from Bangalore, read my X-rays from Bangalore, trace my lost luggage from Bangalore and write my new software from Bangalore." What makes Bangalore different from Beijing? The fact is, China is a major exporter of goods to the US while India is the first low-wage country to bring attention as a supplier of services.

Imports of services from low-wage nations deserve special attention for three main reasons:

- the service sector employs about three times as many workers as the goods-producing industries;
- the service sector contains a relatively large share of highly educated workers. These two facts imply a widening range of workers potentially facing competition from their counterparts in poor countries;
- recent technological progress involves idea transmission, improvement of communication, which possibly places third-world service providers in direct competition with service workers from developed countries.

Our paper investigates to what extent service trade has managed to overcome the impediments of geographic and cultural distance. Using official statistics on bilateral trade in services, we generate a gravity model of service trade and model the "international market for services". We posit that physical distance, differences in time zones, languages, and legal systems, raise the costs of employing foreign workers in services.

Thierry Mayer

Performance of Foreign Banks in Central and Eastern European Countries: Inherited or Self-Made?

There is an interesting debate in the banking literature about the effect of foreign ownership on banks' behavior and performance. The general consensus is that foreign ownership has a positive impact on banks' performance, measured by profits, cost efficiency, net interest margin, loan growth and loan quality. The important caveat with the above studies is the selection bias, since foreign investors could choose to acquire institutions that are, *inter alia*, more efficient and profitable, so called "cherry picking". Therefore, foreign ownership might be endogenous and the results of the above studies could be misleading.

In this study we analyze whether the better performance of foreign banks is inherited or to which extent it is the result of the reorganization undertaken after acquisition ("self-made"). To solve this problem of causality we use the propensity scores matching and difference-in-differences approach. The idea is to compare the performance of banks that were taken over by foreign investors with their performance if they were not acquired. To do so, we apply a matching technique to identify a suitable bank, comparable to a foreign bank, but that had remained under domestic ownership. In practice this means that we use a probit regression to model the binary outcome of a bank being acquired by a foreign investor, on the basis of bank-specific and country-specific characteristics. The predicted probabilities are used to assign to each future acquisition to target a domestic bank that has the closest propensity score within the same year and country, and to observe differences in the performance of matched pairs.

Olena Havrylchyk & Emilia Jurzyk (KU Leuven)

The Role of Prices in Measuring Productivity Growth in Services

Productivity growth in services has been relatively weak or even negative over some periods in the 1980s and 1990s.

According to Baumol, the reallocation of resources may slow down aggregate growth. However, low or negative productivity growth rates in some business and social services might also reflect problems in the adequate measurement of the underlying price index (Wölfl, 2003). Firstly, the heterogeneity of services products makes it difficult to build a representative price index, particularly in business services. Secondly, the time factor (difference between the date of service provision and the date of payment) does not make the overtime analysis easy (Eurostat, 2001).

Our project addresses the impact of mismeasuring prices on the assessment of productivity growth. Using data from the Survey on Producer Price Index in Business Services and the Annual Business Surveys from INSEE, we explain the variation of price changes across products by the factors typically determining the pricing decision of firms. Such factors are: firm specific factors, notably changes in the level and the structure of costs; market specific factors such as the price changing pattern of competing firms; or demand specific factors such as the past or expected development in demand for a specific services product. Evidence of the existence of measurement problems can then be drawn from the part of the variation in services price changes that cannot be explained by these factors.

Initial results from a variance analysis reveals that firm specific and in particular time factors explain most of the variation in price changes across products, while product groups, as a broad variable for the markets in which these firms are acting, do not have a significant influence. However some of this evidence may relate to the specific econometric estimation. The model is therefore being enriched with other explanatory variables related to the firms performance that may influence the pricing decision. At the same time, a hazard model is used to analyse the timing of (quarterly) price changes.

Anita Wolfl

Europe and the Challenge of Emerging Economies

Over the last two decades, Europe has quite successfully faced the competition of emerging economies and has maintained its position in world exports, contrary to the US or Japan. Moreover on the very dynamic Chinese market, European exporters keep strong positions.

The aim of this research is to address two questions:

First, why does the EU perform better than the US and Japan in world markets?

- One explanation lies in structural factors such as sectoral specialization which, maybe, makes Europe less vulnerable to the competition from new comers on world markets and better-suited to emerging economies' demand.

- Another explanation concerns the investment strategies of firms and their impact on trade in goods and services. On the one hand, US and Japanese transnational corporations are more engaged than European firms in cross-border investments with the aim of serving emerging countries' markets. On the other hand, goods and services previously produced in the US and Japan and exported are now directly produced and sold on emerging markets. This development could explain the better performance of European exports.

Second, will the factors which have allowed Europe to withstand competition hold in the future, given:

- the evolution of the EU economy and its enlargement to Central and Eastern Europe;
- the upgrading of productive capacities in the emerging economies.

In this respect, the detailed analysis of trade services between Europe and emerging economies will allow to establish whether it provides a buffer for Europe against competition from emerging countries.

Isabelle Bensidoun, Françoise Lemoine & Deniz-Ünal-Kesenci

DATABASES

Walmart is in the Trade Data

At a detailed level of the classification of traded products, there is evidence of differences in prices of varieties shipped by exporting countries.

This observation usually raises the following question: how do high price exporters manage to stay in the market? There are a bunch of well-known answers to this question: the quality or technological content of varieties of the same product may strongly differ; there might be intangible assets used in the production of varieties, such as brand or image; last, some exporters might take advantage of their large market share to charge higher prices.

We choose a more challenging task. Having a rough idea of the potential gain associated to the opportunity of purchasing low price products, and how this gain has recently evolved with the reinforcement of globalization, we wonder what are the opportunities offered by globalization in terms of purchasing consumption, intermediate or investment goods at lower prices?

To proceed, we rely on BACI, the database recently developed by the CEPII. It draws on United Nations COMTRADE data and covers more than 200 countries and 5 000 products, between 1994 and 2004. For each exporter, year and market, unit values of traded products can be computed and the destination of the product can be identified, based on the Broad Economic Categories classification of the United Nations: consumption, further processing or investment. Two products shipped under the same item of the nomenclature and having different unit values are defined as two different varieties.

We answer three questions:

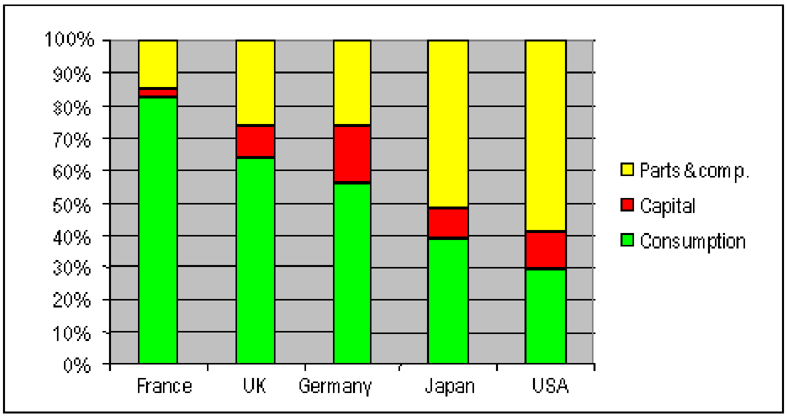
1/ What is the price of varieties imported for the purpose of consumption, intermediate use, or investment, and what is the price of the competing domestic varieties, as tracked by export data of the importing country? To give an order of magnitude, varieties of consumption goods shipped by emerging countries are on average half the price of domestic varieties exported by countries such as France, Germany or the UK.

2/ How does such potential gain for the consumer vary, under the assumption of constant distribution margin, considering the basket of products initially purchased from emerging economies? The answer is pointing to a “Walmartisation” of the economy, especially that of the US: over the 1997-2004 period this potential gain has more than trebled in the US, more than doubled in the UK and increased by less than 50 percent in France, Germany, and Japan. Since relative prices of products are rather constant, this result is driven by the increase in the volume of imports. On top of that, the number of varieties imported has considerably increased over the period, adding to the estimated gains.

3/ Whether importing countries fill their basket of consumption goods, to the benefit of consumers and/or distribution networks, or offshore intermediate goods in emerging economies, or purchase investment goods at low price also matters: in the two latter cases, globalization is used as a competitiveness leverage. The comparison done in the graph below is illuminating: Japan and the US are importing goods dedicated to the producer, while European countries in our sample are concentrating the gains on consumers. Accordingly, if Walmart is in the data, it is only the emerged part of the iceberg.

Graph 1

Effects on Applied Protection of a Doha-Like Agreement for Developing Countries



Source: calculated from BACI-CEPII. Capital/USA interpolated.
1/ We use a simple mobile average of gains, based on product by product calculation.

Lionel Fontagné

EVENTS

Globalization and Cultural Diversity

March 20, 2007

The entry into force of the Convention on the Protection and Promotion of the Diversity of Cultural Expressions, on March 18, 2007, adopted in 2005 by the UNESCO General Conference is an interesting opportunity for a reflection on the relationship between globalization and culture. Culture has at least two distinct definitions. First, for ethnologists, culture is a complex entity, made of norms, habits, series of actions and representations, acquired by the human being as part of the society. It is, at the same time, a factor of identification inside the group, as well as a factor of differentiation towards other groups. Culture is transmitted by traditions constantly reformulated according to the historical context, which shows its living characteristic. The second meaning, more restrictive, refers to cultural industry, cultural goods (books, movies, music) and the permanent evolution of the medium according to new information and communication technologies.

Crossing Views on Emerging Countries

March 20, 2007

In 2005, developing countries all together counted for more than 50% of world GDP (in PPP), marking a turning point for the world economy. Nothing seems to be able to prevent the center of gravity of the world economy from shifting, which will make it necessary for developed economies to adapt. But among the developing countries, which counts for 85% of the world population,which ones are the really emerging economies? How can we measure their weight in the world economy, their contribution to growth or their share in international trade of goods and services? What perception and anticipations lead the strategy of companies from developed countries? How does it change the vision of the world, of Europe? In order to highlight these issues, the CEPII Business club has just launched a new series of meetings, starting with a global reflection on what defines an emerging country and how this evolution changes geostrategic balance. To address these topics, the CEPII Business Club invited Nicole Gnesotto and Giovanni Grevi (EU Institute for Security Studies), Françoise Lemoine (CEPII), Thierry de Mazancourt (Safran) Bernard Mignucci (Calyon) and Jean-Joseph Boillot (CEPII Business Club).

Regional Monetary Coordination in Asia

March 5, 2007

Bilateral and regional cooperation in Asia became more and more common during the last five years. Rather than using the classical scheme “trade integration first, then monetary integration", recent initiatives stressed financial and monetary integration, financial integration being considered as a necessary condition to monetary integration.

But the political will of countries involved in the so-called ASEAN+3 (China, Korea and Japan) to agree on a monetary union is still questioned. To know better about the effectiveness of financial integration and the cohesion of trade, financial and monetary cooperation in the region, the CEPII Business Club organized a roundtable with Eiji Ogawa (Hitotsubashi University), Agnès Belaisch (IMF), Reynold de La Boutetière (French Ministry of Finances) and Agnès Bénassy-Quéré (CEPII).

Russian Economy and the Challenge of Long Term Growth

September 5, 2006

Russian economy is doing well, as shown by all growth and macro-economic indicators. Part of it is due to the large contribution of hydrocarbons to the international economic position of Russia and the high price of oil on world markets. It is well known that such basis can be double-edged. This cannot guaranty long term growth: prices can go down and earnings generated that way have side effects such as currency appreciation and contraction of manufacturing industries. The OECD report (*Economic Survey of the Russian Federation 2006*) makes the Dutch disease the main risk that Russia has to avoid in order to stay on a growth path, and on stronger foundations. With this perspective, the main objectives are the improvement of tax policy, of institutions, of relationships between the State and its administrations on the one side, and among economic agents on the other side. And beyond economic policy and structural reforms, the authors are address in the role of the State, interfering too much with company policies , but not having the means of a long term industrial (innovation) or social (health) policy. These points were discussed by Christian Gianella and William Tompson (OECD), Cyril Pineau-Valencienne (IEP) Gérard Wild (CEPII) and Yves Zlotowski (Coface).

WORKING PAPERS

The Impact of Regulations on Agricultural Trade: Evidence from SPS and TBT Agreements

N°2007-04, February 2007

According to WTO rules, countries are allowed to adopt regulations under the Sanitary and Phyto-Sanitary (SPS) and Technical Barriers to Trade (TBT) agreements in order to protect human, animal and plant health as well as environment, wildlife and human safety. Our paper offers an analysis of the structure and the importance of these measures in agricultural trade. We cover all notifying countries and products at the HS6 digit level. Results of the inventory approach show that EU countries have the lowest coverage ratios of all OECD countries except South Korea and Turkey. Using gravity equation, we also estimate the stringency of such measures. In contrast with previous works, our equation controls for the bilateral applied tariff protection and uses advalorem equivalents of SPS and TBT measures. Our results first suggest that these measures have on the whole a negative impact on OECD imports. When we consider different groups of exporting countries, we show that OECD exporters are not significantly affected by SPS and TBTs in their exports to other OECD countries while developing and least developed countries’ exports are negatively and significantly affected. Furthermore, EU imports seem to be more negatively influenced by tariffs and SPS & TBTs than imports of other OECD countries. Finally, our sectoral analysis suggests an equal distribution of negative and positive impacts of NTBs on agricultural trade.

Anne-Célia Disdier, Lionel Fontagné & Mondher Mimouni

International Comparisons of Living Standards by Equivalent Incomes

N°2007-03, January 2007

We propose a measure of living standards for international comparisons. It is based on GDP per capita, on PPP, and incorporates corrections for international flows of income, labour, risk of unemployment, healthy life expectancy, household demography, inequalities and sustainability. The method for comparing populations which differs in some non-income dimension consists in computing the equivalent variation of income which would make each population indifferent between its current situation and a reference situation with respect to the non-income dimension. This is applied to twenty-four OECD countries. The results show that, even though final living standards are correlated with GDP per capita, the final ranking of countries differs substantially from GDP rankings.

Marc Fleurbaey & Guillaume Gaulier

Does Risk Aversion Drive Financial Crises? Testing the Predictive Power of Empirical Indicators

N°2007-02, January 2007

Financial institutions often refer to empirical risk aversion indicators to gauge investors' market sentiment. These indicators, which are estimated in diverse ways, often show differing developments, although it is not possible to directly assess which is the most appropriate. Here, we consider the most well-known of these indicators and construct others with standard methods. As financial crises generally coincide with periods in which risk aversion increases, we try to check if these indicators rise just before the crises and also if they are able to forecast crises. We estimate logit and multilogit models of financial crises – exchange rate and stock market crises – using control variables and each of the risk aversion indicators. In-sample simulations allow us to assess their respective predictive powers. Risk aversion indicators are found to be good leading indicators of stock market crises, but less so for currency crises.

Virginie Coudert & Mathieu Gex

Asian Catch Up, World Growth and International Capital Flows in the XXIst Century: a Prospective Analysis with the INGENUE 2 Model

N°2007-01, January 2007

In his book "Selling China", Huang (2003) states that a high level of foreign direct investment (FDI) in China is not necessarily a sign of strength, but can be partly attributed to the distortive nature of state policies that put restrictions on private enterprises. The Chinese financial system allocates resources to the least efficient firms – state-owned enterprises – while denying the same resources to Chinese private enterprises, forcing them to look for a foreign investor. We propose to analyze determinants of FDI in Chinese provinces to test the above hypothesis. We control for traditional determinants of FDI such as market access, labor costs, productivity, infrastructure, reform advances and banking sector size in order to assess the impact of inter-provincial heterogeneity in terms of the access that private enterprises have to credit. Our findings show support to the hypothesis that private enterprises use FDI in order to escape constraints imposed by the state dominated banking sector.

Olena Havrylchyk & Sandra Poncet

Current Account Reversals and Long Term Imbalances: Application to the Central and Eastern European Countries

N°2006-27, December 2006

In our study we investigate the evolution of short-term and long-term external positions in the CEECs and make an attempt at predicting their future paths. First, we analyze the long term relationship between net foreign assets and a set of explanatory variables and construct a measure of imbalances which gives the deviation of net foreign assets from their equilibrium level. Later we incorporate this measure in our prediction of current account reversals and compare the forecasts of this model with the baseline model that does not account for this disequilibrium measure. We show that the inclusion of stock disequilibrium measures improves the model's performance in and out-of-sample. By doing this, we fill the gap in the literature on external sustainability, which despite the recent emphasis on stock adjustment (Calderon *et al.*, 2000, Lane and Milesi-Ferretti, 2001), has not yet assessed the effectiveness of stocks in predicting sudden current account reversals. Finally, we apply this methodology to the CEECs. We find that net foreign assets lie below their long-term equilibrium level in all countries except Slovenia and Baltic States, but we predict current account reversals only for Hungary and Estonia.

Kenza Benhima & Olena Havrylchyk

On Legal Origins and Bankruptcy Laws: the European Experience (1808-1914)

N°2006-26, December 2006

Since the early 1998 paper by LLSV, a growing body of research has argued that "legal origins" have a country-specific, time-invariant effect on property rights and economic development. Following the methodology of LLSV, an original data-base of 51 bankruptcy laws has been built: it ranges over fifteen European countries and more than a hundred years (1808-1914), and summarises how the rights and incentives of the parties were defined as the procedure unfold. The first conclusion is that, over the entire period, all legal traditions strongly protected creditors' rights; only English law comes out *prima facie* as less protective. Second, evidence suggests that the evolution of these laws was influenced less by their past than by continent-wide trends, arguably linked to capitalist development. An early 19th century model thus saw heavy repression of failed debtors and highly regulated judicial procedures. After a transition period from the late 1860s to the late 1880s, prison for debt was abandoned, rehabilitation became easier, and the parties were given much more room to re-contract on property rights.

Jérôme Sgard

Changing Patterns of Domestic and Cross-Border Fiscal Policy Multipliers in Europe and the US

N°2006-24, December 2006

This paper documents time variation in domestic fiscal policy multipliers in Germany, the UK and the US, and in cross-border fiscal spillovers from Germany to the seven largest European Union economies. We propose two VAR models which incorporate three "global factors" representing developments in the world economy, and we combine them with identification of fiscal shocks *à la* Blanchard and Perotti (2002) and Perotti (2005), to study the effects of net tax and government spending shocks on GDP, inflation and interest rates. By recursively estimating these models on different samples of data, we find that the domestic impact of tax shocks has been positive but disappearing for Germany and the US, stably not significant for the UK. Financial markets deregulations may play an important role in that since they allow households to be less dependent on disposable income and to smooth more easily consumption. Domestic government spending multipliers are found to be positive but feeble in the short-run and close to zero or slightly negative in the medium-run, implying that private consumption and investments might be crowded out. These results suggest that, in the European Monetary Union, discretionary fiscal policy "surprises" (*i.e.* unexpected tax cuts and government spending expansions) cannot be used by governments as substitutes for lost national monetary instruments, since they have shown to be progressively ineffective over time. Finally, we find that fiscal expansions in Germany have had beneficial (though declining) effects for neighboring countries, especially the smaller ones. This may indicate that the trade channel of transmission of fiscal policy dominates the interest rate one.

Agnès Bénassy-Quéré & Jacopo Cimadomo

Market Access Impact on Individual Wage: Evidence from China
N°2006-23, December 2006

We study the effect of geography and in particular of market access on wages by working with individual data from 56 Chinese cities in 11 different provinces. By applying the theory of the New Economic Geography on individual survey data, we contribute to the explanation of growing disparities within the country, and even within provinces. We examine to what extent proximity to markets can explain inter-individual wage heterogeneity and growing wage disparities within Chinese provinces. Using a New Economic Geography style model, we derive an econometric specification relating wages to market access. The latter is calculated as a transport cost weighted sum of the surrounding locations' market capacities. Based on data from 1995 on around 10,000 Chinese workers, and after controlling for individual skills and factor endowments, we find that a significant fraction of inter-individual differences in terms of return to labor can be explained by the geography of access to markets. Moreover, our study investigates whether the relationship between market access and wages holds for all types of workers equally and shows that the magnitude of the impact depends on the firm type and the level of qualification.

Laura Hering & Sandra Poncet

FDI in Chinese Cities: Spillovers and Impact on Growth
N°2006-22, December 2006

We study the impact of FDI on growth performance. We rely on a data set of Chinese cities between 1990 and 2002 to investigate the effects of FDI in the traditional growth regression framework using the GMM estimator for dynamic panels. Our growth model incorporates an explicit consideration of spatial dependence effects in the form of spatially lagged income and FDI. Our results reveal that Chinese cities take advantage not only of FDI flows received locally but also of FDI flows received by their neighbors.

Nicole Madariaga & Sandra Poncet

Are Financial Distortions an Impediment to Economic Growth? Evidence from China
N°2006-21, December 2006

Using data for 30 Chinese provinces over the period 1989-2003, this study examines the relationship between the level of financial intermediary development, and real GDP growth, physical capital accumulation, and total factor productivity (TFP) growth. We find that traditionally used indicators of financial development and China-specific indicators measuring the level of state interventionism in finance are generally negatively associated with growth and its sources, while indicators measuring the degree of market driven financing in the economy are positively associated with GDP, TFP growth and capital accumulation. These effects have gradually declined over time and are weaker for high FDI recipients.

Alessandra Guariglia & Sandra Poncet

World Consistent Equilibrium Exchange Rates
N°2006-20, December 2006

This paper proposes a systematic analysis of the problem of world consistency when deriving equilibrium exchange rates. World inconsistency can arise for two reasons. First, real effective misalignments of currencies out of the considered sample are implicitly assumed to be the mirror image of those of the currencies under review. Second, only N - 1 independent bilateral equilibrium exchange rates can be derived from a set of N effective rates. Here we measure the extent of these two problems by estimating equilibrium exchange rates for 15 countries of the G20 in effective as well as bilateral terms and by varying the assumptions concerning the rest of the world and the numeraire currency. Our results show that the way the rest of the world is tackled has a major impact on the calculation of effective misalignments and especially bilateral misalignments.

Agnès Bénassy-Quéré, Amina Lahrèche-Revil & Valérie Mignon

Institutions and Bilateral Asset Holdings
N°2006-19, December 2006

Since the late 1990s, developing countries as a whole have become net exporters of capital, a pattern which contradicts neoclassical models but can be explained by investors risk aversion. Because they can be seen as a major determinant of country risk, institutional features of target countries are then expected to impact on international portfolio choices. This paper explores the institutional determinants of international portfolio allocation. We rely on bilateral portfolio investment data together with the newly released Institutional Profiles database which details institutional features for 51 countries. We find that a number of institutional variables do impact on portfolio investment, especially competition and public liberties.

Véronique Salins & Agnès Bénassy-Quéré

Vertical Production Networks: Evidence from France
N°2006-18, November 2006

This paper investigates the determinants of intra-firm trade of multinational firms located in France, using data on

French companies. Results on the vertical pattern of production networks differ according to the affiliates' location. Lower wage and transportation costs in the developing countries increase, as expected, the vertical segmentation of production. In the developed countries, lower trade and unit wage costs, and hence, a strong and positive labour productivity matter a lot in explaining French MNCs' preferences. Among the other variables, partnership and market potential have been given special attention. The results substantiate a mix of vertical and horizontal FDI, mainly when we separate out capital intensive from labour intensive intermediate products.

Michel Fouquin, Laurence Nayman & Laurent Wagner

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RECENT PUBLICATIONS

ECONOMIE INTERNATIONALE, QUARTERLY

Issue 107, 3rd Quarter 2006

The Economics of Regional Monetary Integration
Michel BEINE, Agnès BENASSY-QUERE and Rolf J. LANGHAMMER

What Do we Now Know About Currency Unions?
Michael ARTIS

Beyond Trade – Is Reform Effort Affected by the Exchange-Rate Regime? A Panel Analysis for the World versus OECD Countries
Ansgar BELKE, Bernhard HERZ and Lukas VOGEL

The Post-Crisis Sequencing of Economic Integration in Asia: Trade as a Complement to a Monetary Future
Michael G. PLUMMER & Ganeshan WIGNARAJA

New Monetary Unions in Africa: a Major Change in the Monetary Landscape?
Paul R. MASSON

The CFA Arrangements: More than Just an Aid Substitute?
Etienne B. YEHOUE

Can NAFTA be a Stepping Stone to Monetary Integration in North America?
Dominick SALVATORE

A Currency Union Between Australia and New Zealand?
Peter J. LLOYD and Lei Lei Song

The CIS – Does the Regional Hegemony Facilitate Monetary Integration?
David G. MAYES & Vesa KORHONEN

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Papers should be submitted electronically to Véronique Le Rolland: veronique.lerolland@cepii.fr *Economie Internationale* makes every effort to provide authors with timely reports from referees. Authors will be informed within four months.

NEWS IN BRIEF

The new chairman of the CEPII's Scientific committee is Francesco Giavazzi. Francesco Giavazzi is Professor of economics at Bocconi University in Milan, where he teaches Political Economy and a regular visiting professor at MIT. He is a research fellow and a trustee of CEPR (the Centre for Economic Policy Research) in London and a research associate of NBER (the National Bureau of Economic Research) in Cambridge (Mass). He is a member of the Group of Economic Policy Advisers to the President of the European Commission José Manuel Barroso.

Lionel Fontagné (Professor of economics at the University Paris I and former Director of the CEPII) and Sébastien Jean, (Research Director at the INRA -Public Economics Unit- and former head of the Trade models and Database CEPII research project) joined the CEPII as Scientific Advisors on trade issues.

After having been on leave for one year at the Conseil d'Analyse économique, Isabelle Bensidoun joined the International Integration team. Benjamin Carton joined the macroeconomic research project.

Jean-Joseph Boillot works with the CEPII Business Club, as a Scientific advisor on Emerging countries.

Vladimir Borgy and Guillaume Gaulier left the CEPII for the Banque de France. Evelyne Dourille-Feer joined the Centre d'Analyse stratégique for one year as an expert on Japan.

FORTHCOMING

Research in International Economics and Finance - RIEF
Symposium co-organized by the Tor Vergata University, the RIEF and the CEPII
May 11-12, 2007

Innovation, Growth and Equity
OECD Forum 2007, with the knwoledge partnership of the CEPII
May 14-15, 2007

Fifth ELSNIT Annual Conference on Integration and Trade
Organized by the IADB
October 26-27, 2007
Deadline call for papers: May 14, 2007

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