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THE FRENCH CENTRE FOR RESEARCH
AND STUDIES ON THE WORLD ECONOMY

CONTENTS:

FOCUS

Economic Implications of International Migration Flows

While the globalization process has come with the rapid liberalization of trade and capital flows, restrictive migration policies have expanded during the last decades. However, international migration has really begun to slow down after the triggering of the global economic crisis. Immigrants are indeed directly exposed to the effects of the recession, being the first affected by the rise of unemployment, notably in the construction sector. As a result, remittances to developing countries have declined over the last year, hence increasing the vulnerability of emigration nations already hit by the drop in exports and foreign capital inflows. Against this background, and despite the lack of employment opportunities and the strengthening of border controls in industrialized countries, there have been more and more incentives to emigrate. But beyond the current crisis, what are the long-term implications of migration movements? Recent research at the CEPII tries to answer this question by focusing on three main thrusts: the economic impact of immigration, the brain drain between knowledge based economies, and the link between remittances and financial development.

The economic and political debate about the impact of migration is highly controversial. Recent contributions, however, show that owing to their complementarity with native people in terms of age and education, immigrants do not have any detrimental impact on income or productivity of host countries. In the long run, unskilled immigrants even seem to have a positive impact on host country productivity by affecting its total factor productivity and raising the equilibrium investment rate in the economy. Furthermore, the fact that leading OECD countries have a declining labor force while they concentrate the largest part of the world capital suggests two adjustment mechanisms: either capital moves to where workers are, or workers move to where the capital is. Thus, a low labor force with an abundant capital generates conditions for high earnings which attract workers from low earnings regions. Allowing the migration flows to be related to economic fundamentals (using INGENUE 2, a multi-region overlapping-generations general equilibrium model) induces important changes in the volume and the distribution of the migration flows between regions compared to United-Nations projections. Nevertheless, despite their size, these flows will not be sufficient to offset the effect of ageing, leaving room for pension reforms. As for immigration countries, the adverse economic consequences appear to be all the more important that the region is advanced in the ageing process (and is already suffering from a declining population).

Another line of research puts the emphasis on the brain drain between knowledge based economies. Indeed, since 1990, European emigrants to the United States are increasingly selected from the upper tail quality distribution of their source country workforce in terms of education, scientific knowledge, and unobservable skills. As a matter of fact, these cohorts include a larger proportion of engineers, researchers and academics than the previous ones. The nineties surge has been amplified by the fact that returnees were fewer, older, and relatively less educated. Preliminary evidence shows that the brain drain reflects the weakness of demand for skilled labor in Europe. Besides, technological changes triggered by human capital losses could make these outflows increasingly costly for Europe in terms of productivity, and could affect the innovation activities targeted by the Lisbon Strategy.

Finally, research at the CEPII focuses on the role of workers' remittances in the development of emerging markets, namely pre-1914 peripheral European countries. Remittances, which tend to be less volatile than other capital flows, helped to reduce the incidence of financial disturbances – sudden stops and current account reversals – in receiving countries, in particular among those integrated in the gold standard. Remittances also contributed to the development of European countries' financial sector. Given that financial development is regularly included among the conditions for economic growth and catch up of developing nations, such result adds to the understanding of the multiple impacts of international migration on the economies of emigration countries. They also suggest that public authorities in today's developing countries should try to maximize the impact of remittances by adopting policies aiming to promote financial democracy.

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Ethnic Networks, Information, and International Trade: Revisiting the Evidence

Deregulation and technological progress have decreased trade costs. There are many empirical studies dedicated to the analysis of the importance of these changes. In particular, studies of the border effect have shown that informal barriers are still important (Rauch and Trindade, 2002 – henceforth R&T). Recent empirical works show that migration contributes to decrease informal trade barriers between countries and thus enhances their bilateral trade.

The overall contribution of this study is to revisit the findings of R&T. More precisely, we extend the literature in two main ways. First, we propose a theory-grounded gravity framework for the estimation of the network effects. This allows to discuss the identification of the trade-cost channel of networks. We argue that, excluding the links of ethnic minorities with the ethnic majority country, one may minimize the preference effect and come closer to the pure trade cost effect. Besides the identification issue, we use state-of-the-art econometric techniques to the data of R&T. We show that the large trade -creating effect of 60% estimated by R&T is probably two to four times too large. Most of the overestimation comes from the omission of the multilateral resistance terms; the preference channel seems to be less important.

The second part of our contribution is to extend the analysis beyond the Chinese network studied by R&T. Using data from the World Bank for the year of 2000, we proxy the networks of some ethnic group k by the stock of individuals born in k but residing in some foreign country i or j. This gives us a more narrow definition of ethnic networks than the one used by R&T, because it excludes descendants of individuals who have migrated long ago or whose parents have always lived as ethnic minorities in those foreign countries. Moreover, the World Bank data allow to check for the existence of other ethnic (or better: migrant) networks. Besides the Chinese network, we document the existence of a Turkish, a Mexican, or a Pakistani network, to name only a few. Interestingly, in terms of trade-creating potential, the Chinese network is by far not the most important one. We also find substantial heterogeneity in the trade-creating potential of different networks which we can partly explain by characteristics of the migrants' countries of origin. For example, when the share of high skilled individuals in the source country is larger, or the population less strongly ethnically fragmented, the network effects are smaller.

Gabriel J. Felbermayr, Benjamin Jung & Farid Toubal

How do Different Exporters React to Exchange Rate Changes? Theory, Empiric and Aggregate Implications

This research analyzes the reaction of exporters to exchange rate changes. We present a model where, in the presence of distribution costs in the export market, high and low productivity firms react differently to a depreciation.

Whereas high productivity firms optimally raise their markup rather than the volume they export, low productivity firms choose the opposite strategy.

Hence, pricing to market is both endogenous and heterogeneous. This heterogeneity has important consequences for the aggregate impact of exchange rate movements. The presence of fixed costs to export means that only high productivity firms can export, firms which precisely react to an exchange rate depreciation by increasing their export price rather than their sales. We show that this selection effect can explain the weak impact of exchange rate movements on aggregate export volumes. We then test the main predictions of the model on a very rich French firm level data set with destination-specific export values and volumes on the period 1995-2005. Our results confirm that high performance firms react to a depreciation by increasing their export price rather than their export volume. The reverse is true for low productivity exporters. Pricing to market by exporters is also more pervasive in sectors and destination countries with higher distribution costs.

Consistent with our theoretical framework, we show that the probability of firms to enter the export market following a depreciation increases. The extensive margin response to exchange rate changes is modest at the aggregate level because firms that enter, following a depreciation, are smaller relative to existing firms.

Nicolas Berman, Philippe Martin & Thierry Mayer

Spillovers from Multinationals to Heterogeneous Domestic Firms: Evidence from Hungary

It is widely believed that multinational firms increase competition, transfer technology and help to achieve more efficient allocation of resources. Inward Foreign Direct Investment (FDI) is often seen as a catalyst for development by many governments because it increases domestic firms' productivity by creating linkages between multinational and domestic firms. This explains various programs that Governments in Central and Eastern European countries have launched to attract FDI in the early nineties.

Firms cluster their economic activities to exploit technological and informational spillovers from other firms. Spillovers from multinational firms can be particularly beneficial to domestic firms especially in less developed economies, because technological superiority and management experience of foreign multinational firms should theoretically yield various opportunities for learning. The empirical literature on FDI spillovers finds however mixed support concerning the impact of spillovers on domestic firms' total factor productivity (TFP).

Certainly, firms react to foreign presence in a rather heterogeneous manner. According to a recent survey conducted by the World Bank among Czech and Latvian firms, 23 per cent of firms state that the presence of multinational firms enhances their knowledge about new technologies, 13 per cent state the enhancement of their marketing know-how. However, about 29 per cent of the domestic respondents consider inward FDI to be responsible for their loss of market share.

We expect a similar pattern for Hungarian firms. Some domestic firms can reap spillovers from multinationals, but others may not. We argue that the impact multinationals have on domestic firms depends on (i) the intensity of the linkage, (ii) domestic firms' absorptive capacity and (iii) their ability to face competition. The competitive pressure from multinational firms could be the starting point for a positive development if it raises process and product innovations (Aghion et al., 2005). It could turn out to be negative for domestic firms if they just lose their market share. The liberalization process in Hungary could have increased competition, pushing some domestic firms to exit the market and others to innovate. Our aim is to analyze the different responses of heterogeneous domestic firms to the expansion spread of multinational firm presence in Hungary.

Gábor Békés, Jörn Kleinert & Farid Toubal

Consumption Tax, Wage Tax and Monetary Policy

Facing the ongoing ageing process, European countries will have to address a significant increase in the cost of their social system. The large public debt inherited from the 2008-2009 economic crisis adds to the demographic burden. Taxes mainly rely on consumption or labor. However, taxing either consumption or labor is not neutral and tax incidence has a broad literature already.

Departing from this point of view, we focus on the short term impact of shifting taxation rate, due to imperfect price adjustment and the monetary policy. First, we assess the monetary policy problem in the presence of tax shocks (consumption and labor tax rates) in a stylized closed economy model. This model embodies the fact that firms differ in their pricing behavior after a VAT tax increase: some of them pass it through consumption price immediately; others smooth the price increase over several quarters. Optimal monetary policy depends on the relative share of each behaviour. A Taylor rule is able to reproduce fairly the optimal policy, provided that it takes into account the convenient share of producer (excluding tax) and consumer (including tax) prices. We estimate the share of the two kind of firms using the 3 percentage points German's January 2007 VAT increase as a natural experiment. We use disaggregated consumer price data for Euro area 12 countries in order to disentangle the sector specific price dynamic from the effect of the tax shock.

A two country DSGE model calibrated for Germany and the rest of the Euro area shows that the short term impact of a tax increase on inflation and the output-gap is different depending on the modified tax (consumption tax, workers' contributions, firms' contributions) and the schedule of pre-announcement. We then estimate the macroeconomic impact on Germany and the rest of the Euro area of the policy effectively implemented on January 2007: the output loss due to the tax reform reached 0.1% of GDP in the rest of Euro area: a national tax shifting from labor to consumption weighs on the rest of the currency union.

Benjamin Carton

DATABASES

Institutional Profiles Database 2009 (IPD 2009)

The Institutional Profiles Database (IPD) project aims at providing researchers with a quantitative evaluation of a wide set of institutional characteristics at the country level. IPD covers 123 countries, including developed, developing and in -transition- countries, encompassing 99% of global GDP and 96% of the world population. The database is oriented towards the analysis of the relationship between institutions and long-term economic growth. IPD 2009 comes after two previous releases, in 2001 and 2006. The next update is planned for 2012.

The complete database and the document presenting concepts and methodology(1) are freely available at:

http://www.cepii.fr/ProfilsInstitutionnelsDatabase.htm
and http://www.maastrichtuniversity.nl/governance

The Institutional Profiles Database was built using a survey conducted by researchers from the French Ministry for the Economy, Industry and Employment (MINEIE) and the Agence Française de Développement (AFD) in the countries covered.

The purpose of the IPD project is to contribute to the measurement and analysis of the role of institutions in development. The Institutional Profiles project is organized as part of a multi-year AFD research program on “Institutions, Governance and Long Term Growth” which aims at deepening research on the role of institutions in development processes. The University of Maastricht / Maastricht Graduate School of Governance (MGSoG) is the main partner in this research program.

Since 2008, the World Bank Institute has used part of IPD for producing the Worldwide Governance Indicators (WGI)(2). The average weight of IPD in the WGI is 7.2% out of 33 different sources.

From a broad definition of institutions inspired by Douglas North(3) (institutions are constituted by a set of formal and informal rules that govern the behaviour of individuals and organisations), and trough a de facto approach, IPD offers a field of institutional characteristics which goes beyond governance indicators. IPD is broken down according to nine functions which are crossed on four sectors. The institutional arena is summarised in the following table:

IPD's Structural Framework

		INSTITUTIONAL SECTORS			
		Institutional environment	**Markets**		
		-A- Public institutions, Civil society	**-B- Market for goods and services**	**-C- Capital market**	**-D- Labour market**
INSTITUTIONAL FUNCTIONS	**1- Political institutions**	public rights and freedoms, legality, legitimacy			trade union freedom and pluralism
	2- Safety, law and order Control of violence	safety of persons and goods, control of violence, external security			
	3- Functioning of public administration	transparency, control of corruption, efficiency of administration, independence of the justice system, autonomy of organisations	business start-ups, governance of natural resources		
	4- Free operation of markets		privatisation and nationalisation, freedom of prices	privatisation and nationalisation, freedom of credit and interest rates	flexibility of the formal labour market
	5- Coordination of actors, Strategic vision, Innovation	government capacity for autonomous decision-making, co-ordination between public and private actors, innovation, authorities' strategic vision	businesses' technological environment	venture capital	vocational training
	6- Security of transactions and contracts	security of property rights and contracts, commercial justice, bankruptcy laws	information on the quality of g & s, the situation of firms, intellectual property , land tenure	guarantee systems, disclosure requirements	observance of labour laws
	7- Market regulations, Social dialogue		regulation of competition	regulation of competition, prudential rules, supervision	social dialogue
	8- Openness to the outside world	circulation of persons and information	trade openness	financial openness	circulation of workers
	9- Social cohesion and mobility	social equilibrium, equality of treatment, solidarity		micro-lending	market segmentation, social mobility

Nicolas Meisel & Jacques Ould Aoudia

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WORKING PAPERS

The Crisis: Policy Lessons and Policy Challenges

N° 2009-28, November 2009

We review the competing explanations of the 2007-2008 global crisis, recall how governments around the world had to depart from established policy stances, and reflect on the legacy of the crisis both in terms of future challenges and changes in policy doctrine. The G-20 has addressed important regulatory and macro-financial dimensions of the crisis, but it has left difficult questions unanswered. We review some of these incoming challenges such as moral hazard in the post-bail-out world, the trade-off between financial stability and the cost of capital, the feasibility for central banks to manage their new financial stability mandate, and the effectiveness of peer review to address global imbalances.

Agnès Bénassy-Quéré, Benoît Coeuré, Pierre Jacquet & Jean Pisani-Ferry

Commerce et flux financiers internationaux : MIRAGE-D

N° 2009-27, November 2009

MIRAGE-D est une version de MIRAGE modifiée pour prendre en compte les implications du commerce international sur la position extérieure nette des pays. Chaque pays ou groupe de pays est représenté dans le modèle par un acteur économique unique, qui répartit son avoir entre différents actifs suivant un modèle de gestion de portefeuille à trois niveaux. Par ailleurs, MIRAGE-D propose un mécanisme de distribution des investissements par secteur et par pays de destination inspiré de la théorie du « q » de Tobin et différent du modèle gravitaire de la version de base de MIRAGE. La comparaison entre MIRAGE et MIRAGE-D montre que les différences dans les résultats sont modérées, mais tout de même significatives.

André Lemelin

Oil Prices, Geography and Endogenous Regionalism: Too Much Ado About (Almost) Nothing

N° 2009-26, October 2009

This paper studies the effect of oil prices on the geography of international trade. We model transport costs as a function of variable and fixed costs. By affecting the first cost component, oil prices can then modify the structure of transportation costs across partners. This, we argue, acts as a factor of distortion in relative prices, thereby creating a reallocation of trade at the expense of remote countries. In that respect, an increase in oil prices should favor regionalism. This mechanism is empirically tested using data on US bilateral imports and transportation costs. The empirical results are consistent with the theoretical intuition. But, the elasticity of freight rates to oil prices, directly linked to geographical distance, appears to be low: between 0.088 for close to US countries and 0.103 for faraway ones. We then estimate the contribution of the dramatic increase in oil prices, in recent years, to relative changes in the countries' probability to export to the US (extensive margins) along with their relative market shares (intensive margins). We find that the recent oil price increases that took place after 1999 have had only a "maigre" contribution: the last oil shock had contributed marginally to increase Canada and Mexico's relative performance.

Daniel Mirza & Habib Zitouna

EU15 Trade with Emerging Economies and Rentier States: Leveraging Geography

N° 2009-25, October 2009

During the past ten years, the emerging economies, exporters of manufactured products or services, and the rentier states, exporters of primary products, have eroded the dominant position of the developed countries in world markets. The EU15 has lost less ground than the US or Japan. The EU15 has taken advantage of its geographical location to enhance its exports to the emerging and rentier countries located in Europe & Periphery. Regional integration has also favoured the upgrading of the EU15 imports from its emerging neighbours. The EU15 trade with emerging markets in Asia have strengthened the latter's specialisation in high-technology products at low price, and the EU15 specialisation in high-technology and high-quality products.

Guillaume Gaulier, Françoise Lemoine & Deniz Ünal

Market Potential and Development

N° 2009-24, October 2009

This paper provides evidence on the long-term impact of market potential on economic development. It derives from the New Economic Geography literature a structural estimation where the level of factors' income of a country is related to its export capacity, labeled Market Access (MA) by Redding and Venables (2004), or Real Market Potential (RMP) by Head and Mayer (2004). The empirical part evaluates this market potential for all countries in the world with available trade data over the 1960-2003 period and relates it to income per capita. Overall results show that market potential is a powerful driver of increases in income per capita.

Thierry Mayer

Immigration, Income and Productivity of Host Countries: a Channel Accounting Approach

N° 2009-23, October 2009

This paper investigates the contribution of immigration to income and productivity of host countries. Using a dataset constructed from census data and labor force surveys for 20 OECD countries in the period from 1960 to 2005, we explore the information on age and educational attainment of immigrants to assess the contribution of immigration to income components: changes in physical capital, human capital, employment, and total factor productivity. We combine level accounting approach with panel income regressions, and also account for the endogeneity of migration choices to productivity shocks. Our main findings are that, overall, higher shares of immigrants over natives have a positive effect on income and productivity of their host countries. Under the assumption that older immigrants are also the ones with the longest duration of stay, this effect is due to the long run changes in TFP, and is robust to educational disparities between immigrants and natives. The decomposition by age and education suggests that only unskilled immigrants have a non-neutral impact on income and productivity, which is negative in the short run but positive, and larger in magnitude, in the long run. We also find a dispersed impact of the presence of other immigrant groups on some income channels.

Mariya Aleksynska & Ahmed Tritah

A Picture of Tariff Protection Across the World in 2004 MAcMap-HS6, Version 2

N° 2009-22, September 2009

MAcMap-HS6v2 is a comprehensive database providing detailed protection data at the 6 digit level of the harmonized system (HS6), i.e. more than 5000 products, for the year 2004. It includes ad valorem equivalents on MFN tariffs for 169 importing countries, as well as bilateral applied protection, together with preferential provisions for 220 partners. Specific and compound tariffs and tariff rate quotasdata are also provided, at the same level of detail. In this paper we present the methodology used for building this new database, paying attention to the consequences from such choices. We then provide evidence on the world applied protection in 2004. Finally we investigate variations in tariffs occurred between 2001 and 2004.

Houssein Boumellassa, David Laborde Debucquet & Cristina Mitaritonna

Spatial Price Discrimination in International Markets

N° 2009-21, September 2009

This paper presents a theoretical discussion and an empirical investigation of the impact of distance on the spatial pricing policy of exporting firms. The theoretical part points out the importance of transport costs formulation to determine how distance impacts fob prices. Assuming additive or iceberg transport costs might imply opposite predictions concerning this relationship. The empirical analysis is based on French export data providing us with bilateral export unit values at the firm and product level. The main empirical result is that French exporters set higher prices toward the more remote markets.

This finding goes against the predictions of the main models of international trade (with or without quality) predicting either a nil or a negative impact of distance on prices at the firm level. It also questions the use of iceberg transport costs. A way to reconcile theory with the data is to introduce additive transport costs.

Julien Martin

Is Russia Sick with the Dutch Disease?

N° 2009-20, September 2009

Despite impressive economic growth between 1999 and 2007, there is a fear that Russia may suffer the Dutch disease, which predicts that a country with large natural resource rents may experience a de-industrialisation and a lower long term economic growth. We study whether there are symptoms of the Dutch disease in Russia. Using Rosstat and CHELEM databases, we analyse the trends in production, wages and employment in the Russian manufacturing industries, and we study the behaviour of Russian imports and exports. We find that, while Russia exhibited some symptoms of the Dutch disease, e.g. a real appreciation of the rouble, a rise in real wages, a decrease in employment in manufacturing industries and the development of the services sector, manufacturing production nonetheless increased, contradicting the theory of the Dutch disease. These trends can be explained by the gains in productivity and the recovery after the disorganisation in the 1990s, by new market opportunities for Russian products in the European Union and in CIS countries, by a growing Chinese demand for some products and by a booming internal market. Finally, investments in many manufacturing industries were largely encouraged, whereas those in the energy sector were strongly regulated, which contributed to economic diversification.

Victoria Dobrynskaya & Edouard Turkish

Economies d'agglomération à l'exportation et difficulté d'accès aux marchés

N° 2009-19, September 2009

La littérature empirique du commerce international souligne l’existence d’économies d’agglomération à l’export. Elle met en évidence l’impact positif de la présence d’autres exportateurs locaux sur la probabilité qu’une firme commence à exporter vers un pays donné. Nous explorons ce résultat en étudiant l’hétérogénéité de ces effets en fonction de caractéristiques hétérogènes des firmes exportatrices et de variables mesurant la difficulté d’accès des pays importateurs : temps et nombre de documents nécessaires à l’importation dans le pays, demande pondérée, et mesure du risque économique et global dans le pays. Nos résultats montrent qu’une augmentation du nombre de voisins exportateurs a davantage d’impact sur la probabilité qu’une firme commence à exporter lorsqu’il s’agit d’un pays difficile d’accès. Ce résultat est robuste à divers sous-échantillons et pour l’ensemble de nos mesures de difficulté d’accès.

Pamina Koenig, Florian Mayneris & Sandra Poncet

Local Export Spillovers in France

N° 2009-18, September 2009

This paper investigates the presence of local export spillovers on both the extensive (the decision to start exporting) and the intensive (the export volume) margins of trade, using data on French individual export flows, at the product-level and by destination country, between 1998 and 2003. We investigate whether the individual decision to start exporting and exported volume are influenced by the presence of nearby product and/or destination specific exporters, using a gravity-type equation estimated at the firmlevel. Spillovers are considered at a fine geographical level corresponding to employment areas (348 in France). We control for the new economic geography-type selection of firms into agglomerated areas, and for the local price effects of firms agglomeration. Results show evidence of the presence of export spillovers on the export decision but not on the exported volume. We interpret this as a first evidence of export spillovers acting through the fixed rather than the variable cost. Spillovers on the decision to start exporting are stronger when specific, by product and destination, and are not significant when considered on all products-all destinations. Moreover, export spillovers exhibit a spatial decay within France: the effect of other exporting firms on the export decision is stronger within employment areas and declines with distance.

Pamina Koenig, Florian Mayneris & Sandra Poncet

Currency Misalignments and Growth: a New Look Using Nonlinear Panel Data Methods

N° 2009-17, September 2009

The aim of this paper is to investigate the link between currency misalignments and economic growth. Relying on panel cointegration techniques, we calculate real exchange rate (RER) misalignments as deviations of actual RERs from their equilibrium values for a set of advanced and emerging economies. Estimating panel smooth transition regression models, we show that RER misalignments have a differentiated impact on economic growth depending on their sign: whereas overvaluations negatively affect economic growth, real exchange rate undervaluations significantly enhance it. This result indicates that undervaluations may drive the exchange rate to a level that encourages exports and promotes growth.

Sophie Béreau, Antonia Lopez Villavicencio & Valérie Mignon

Trade Impact of European Measures on GMOs Condemned by the WTO Panel

N° 2009-16, July 2009

In May 2003, the United States, Canada and Argentina launched a World Trade Organization (WTO) case against the European Union concerning its authorization regime for biotech products. In November 2006, the WTO condemned this regime. Using a gravity equation, we estimate the reduction in exports of potentially affected products from the complainants to the European Union. Our results suggest that the European moratorium and product-specific measures have a negative effect on trade, as do safeguard measures adopted by Germany, Italy and Greece.

Anne-Célia Disdier & Lionel Fontagné

Economic Crisis and Global Supply Chains

N° 2009-15, July 2009

Much attention has been paid to the sharp fall in world trade associated with the economic crisis during the last quarter of 2008 and the first quarter of 2009. Alarming forecasts have been published for the whole year of 2009 and several explanations have been offered. In particular, beyond the credit crunch and the global drop in demand, it has been argued that, due to globalisation and the fragmentation of supply chains, world trade will inevitably overshoot the shock in world GDP. We contest this view using both simple accounting calculations and a simulation of the multi-region, multi-sector Computable General Equilibrium (CGE) model, which explicitly models input-output relations within and between sectors. Using the CGE MIRAGE, we ask whether the most recent forecasts of GDP change, together with a twist in the composition of demand (to the detriment of capital goods), a halt in the trend towards the reduction in trade costs and a collapse in the oil price can replicate a very similar multiplier effect on world trade to that currently being experienced. Firstly, we find that, when trade flows are deflated by the price of the world GDP, the order of magnitude for trade decline in 2009 is 8.9 percent in our exercise. However, when trade flows are deflated by the sector-specific trade prices computed by the model, the drop in world trade is much more limited (-2.4 percent). Hence a large part of the fall in trade predicted by the model comes from a relative price effect. Secondly, while this fall is still more than the –1.3% drop in world GDP forecast by the IMF in April 2009, even this magnification effect disappears when GDPs are aggregated using current exchange rates, which is the appropriate reference, rather than PPP weights. Thirdly, while, our paper does not support the hypothesis of a systematic over-shooting of trade due to globalisation and the fragmentation of supply chains, it seems likely that additional factors such as the credit shortage must have played a role in the short run to explain the sharp fall in world trade.

Agnès Bénassy-Quéré, Yvan Decreux, Lionel Fontagné & David Khoudour-Castéras

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RECENT PUBLICATIONS

ECONOMIE INTERNATIONALE, QUARTERLY

Issue 118, 2nd Quarter 2009

Vietnam's WTO Accession and Export-Led Growth

Introduction Full text
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Vietnam's Accession to the WTO: *Expost* Evaluation in a Dynamic Perspective
Houssein Boumellassa & Hugo Valin

The Distributive Impact of Vietnam's Accession to the WTO Full text
Jean-Pierre Cling, Mohamed Ali Marouani, Mireille Razafindrakoto, Anne-Sophie Robilliard & François Roubaud

Exports Liberalization and Specialization in Cash Crop: Gains for Vietnamese Households?
Barbara Coello

Vietnam's Export-Led Growth Model and Competition with China
Jean-Raphaël Chaponnière & Jean-Pierre Cling

Issue 117, 1st Quarter 2009

Crisis and Volatility in Asian Versus Latin American Real Exchange Rates Full text
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Volatility Dynamics of the UK Business Cycle: a Multivariate Asymmetric Garch Approach
Kin-Yip Ho, Albert K. Tsui & Zhaoyong Zhang

Foreign Direct Investment and Economic Growth in Mauritius: Evidence from Bounds Test Cointegration
Myriam Blin & Bazoumana Ouattara

Trade Openess and Wage Inequality Between Skilled and Unskilled Workers in Tunisia
Monia Ghazali

Select your Committee: the Impact of Central Bankers Background on Inflation
Etienne Farvaque, Hakim Hammadou & Piotr Stanek

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LA LETTRE DU CEPII, MONTHLY

Crisis and Trade: Bad Times for High Quality

N° 293, 23 October 2009

Similar products are imported at different prices, suggesting that varieties are vertically differentiated between low and high quality. This differentiation of varieties according to their quality enables to provide new evidence regarding the collapse of world trade during the recent crisis. The decrease of world demand has affected the imports of high quality varieties to a larger extent, leading to a decrease of import prices. Our econometric estimations over a period of ten years confirm that the revenue elasticity of import quantity is larger for high quality imports. Hence, a decrease of world revenue is expected to decrease more the world imports of high quality as compared with the imports of low quality. To the contrary, recovery should benefit more to the imports of high quality.

Antoine Berthou & Charlotte Emlinger

The G20 is not Just a G7 with Extra Chairs

N° 292, 21 September 2009

In the wake of the global crisis the G20 has largely substituted the G7 as the key forum for international economic cooperation. However, G7 and non-G7 members of the G20 come to G20 meetings with different priorities. Developed countries have taken a direct hit on their financial systems as a result of the crisis and they accordingly give priority to strengthening financial supervision. Emerging economies have been primarily affected by the collapse of trade and (mostly in emerging Europe) the outflow of capital. Their priority is thus to ward off the reemergence of protectionism. As newcomers, the emerging countries are also focused on the distribution of power in international institutions. So far, the G20 agenda has been dominated by the global turmoil and the rebuilding of financial regulation – a rather G7-like agenda. Meanwhile, it has been silent on the issue of global imbalances, where it could have made a difference. In the future, the G20's agenda will have to evolve and better reflect the variety of concerns of its members.

Agnès Bénassy-Quéré, Rajiv Kumar & Jean Pisani-Ferry

Agglomeration of Exporters Encourages Exports

N° 290, 14 September 2009

The French public administration has adopted numerous provisions intended to promote collective export campaigns and the exchange of experience between businesses in close geographical proximity. This extends from exporters' clubs to the policies of competitiveness clusters, and the underlying idea is that strength in numbers helps to overcome the costs and difficulties involved in exporting. In two studies recently carried out on data from French businesses, we measured the impact of the geographical agglomeration of exporting firms on the efforts of firms in the vicinity to launch an export activity. This impact is heightened where the businesses in question export the same product to the same country and where the market to be won is difficult to access. These effects, which pertain to firms' environments, are however of secondary importance compared with the characteristics of the firms themselves.

Pamina Koenig, Florian Mayneris & Sandra Poncet

The Dollar - Unsafe Haven

N° 289, 29 July 2009

Just like any market price, the exchange rate for the dollar fluctuates based on supply and demand. By observing the constituent elements of the supply and demand for dollar assets, we can thus explain the significant appreciation of the dollar during the second half of 2008. Over this period, during which the crisis spread to the whole of the global economy, US Treasury bonds acted as a safe haven, but in net terms foreign investors ceased buying US private securities. Americans, on the other hand, repatriated capital on a massive scale, driving up the net demand for dollars. Supply of dollar assets fell more rapidly than the global supply of assets and thus shored up the US currency. The dollar's future movements remain one of the greatest uncertainties following the crisis, even though the forecast made before the beginning of the crisis remains valid: if the ongoing US deficit is to be resorbed, a weak dollar will continue to be required.

Agnès Bénassy-Quéré

Will Western European Banks Pull Out of Central and Eastern Europe?

N° 288, 3 June 2009

The current financial turmoil raises concerns about supportiveness of foreign banks from Western European countries for their Central and Eastern European subsidiaries. Foreign bank presence dominates banking business in almost all countries in the region, which would make their withdrawal very painful, if not catastrophic. For Austrian and Swedish banks, this region was a source of large profits in the last years, and, therefore, they are expected to stay in the region. While recognizing individual strengths and weaknesses of each country, such strong interconnectedness calls for a region wide approach for helping ailing banks.

Olena Havrylchyk

The Emerging Countries in the International Trade of the EU

N° 287, 12 May 2009

Over the past ten years, the emerging economies, being exporters of manufactured goods, and rentier states, being exporters of commodities, have eroded the dominant position of developed countries in the world market; for the latter, they have also represented opportunities for growth and been partners in the international division of labour. As the EU15 has a fair share in these dynamic markets, its global exports have only slightly receded. Such an achievement, which was mainly made in neighbouring markets, is put at risk by the economic downturn which is affecting European emerging countries and rentier states in particular.

Isabelle Bensidoun, Guillaume Gaulier, Françoise Lemoine & Deniz Ünal

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