The CEPII *NEWSLETTER*

CENTRE D'ETUDES PROSPECTIVES
ET D'INFORMATIONS INTERNATIONALES

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CONTENTS:

FOCUS

The Textile and Clothing Trade Liberalisation Process

From the early stages of the Industrial Revolution in Great Britain to the East Asian success story of the last forty years, the textile and clothing industry has played, and continues to play, a central role in the economic development process. *Clothing* exports are often the first step away from a division of labour in which poor countries export natural resources in exchange for industrial products from developed countries. Today, the share of clothing in the total exports of the poorest countries like Bangladesh and Cambodia is growing and accounts for more than 60% of their total exports. For middle-income countries like Morocco, Tunisia, or Romania, clothing makes up around 30% of their total exports. For the developed countries, the share is declining very fast and represents less than 3% of exports from the USA, the EU, or Korea, Taiwan and Japan.

The textile and clothing industry has also always been a very competitive industry due to low entry costs and to the intensive utilisation of low-skilled workers.

In the last thirty years, the share of the developing countries jumped from 30% of world trade to more than 60%. This progress was made in spite of an exceptional trade regime called the Multifibre Arrangement (MFA), implemented for the first time in 1974, and renewed up to 1994. This system was based on quotas on imports by the USA, Canada and the European countries. At first, the MFA was only dedicated to protecting developed countries' industries, but from the mid-1980s, the Arrangement was complemented by the granting of favoured treatment for selected developing countries. On the one hand, the USA allowed the free import of clothing made from US fabrics by the Caribbean countries (under the Caribbean Basin Initiative - CBI) and lately by some African countries (via the African Growth and Opportunity Act - AGOA). On the other hand, it signed an FTA with Mexico, which favoured the development of the *maquiladoras*.[1] The European Union had a similar policy *vis-à-vis* Mediterranean countries such as Morocco or Tunisia and lately *vis-à-vis* the transition economies of Eastern Europe.

This strategy has been beneficial for the developed-country textile industries since their exports to preferred developing countries increased rapidly. Consequently, according to trade flow statistics taken from the CEPII's CHELEM database, strong regional relations have emerged. This was eventually detrimental to Asian exports, which declined from the mid-1980s to the early 2000s. In 2002, the quota system was still a major obstacle only to Chinese and, to a lesser degree, Indian exports of clothing.

When exploring the consequences of phasing out the MFA in 2005 (Avisse & Fouquin, 2001 & 2002), the most difficult task for the CEPII has been to estimate the real level of protection and its cost. There are two ways of measuring this: 1/ to use Chinese quota prices at the end of the last known year; 2/ to consider Japanese import prices (which are free of quotas) as a reference for the price of free imports of clothing. The first method has been preferred since it appears that Japanese imports were probably too specific to be compared with US or EU imports.

The price of quotas was introduced by the CEPII into the GTAP model, to simulate various scenarios of liberalisation and to compare the CEPII's results to several other exercises. The main results are as follows:

1/ commercial gains are concentrated in developing Asian countries;
2/ among these, the two developing giants, China and India, are the main winners;
3/ the small developing countries are practically excluded from any gains or may even lose out under liberalisation;
4/ the developed nations benefit more in terms of consumer gains – due to price decreases – than they lose in terms of production;
5/ improved access to the developing markets does not compensate for increased imports to developed countries.

Nine months after the phasing out of quotas, what can we say about the CEPII's simulations?

The first two results have undoubtedly been borne out: China, and to a much more modest extent India, are clear beneficiaries. This is so much so that the EU and the US are using safeguard measures *vis-à-vis* some Chinese products.

The third conclusion reached by the CEPII has to be qualified. Some developing countries are losing out, such as the Mediterranean countries, but others like Bangladesh appear to be resisting better.

Evidence on the fourth conclusion is not that clear: there has been a decrease in import prices (the quota price has disappeared), but consumers are not benefiting from it, and distribution networks are the real beneficiaries.

Concerning the last result, it should be noted that developed-country producers' access to the developing markets is still under discussion at the WTO.

As for the Doha Development Round, simulations have been carried out (Bchir, Fontagné & Jean, 2005), comparing several formulas for tariff reduction: from the elimination of tariff peaks to full liberalisation, via intermediate Girard formulas.[2] These exercises use bound (*i.e.* ceiling) tariffs for the first time, in addition to applied tariffs.[3] The textile and apparel sector has still the highest of all industrial tariffs. When applying a standard Girard formula (with a coefficient equal to 1), the increase in the world trade of industrial products is rather weak, concentrated in a handful of sectors and firstly in clothing and textiles. However, these figures mask a significant reshuffling of industrial activity world-wide. Actually, in the clothing sector, Asian countries strongly benefit from liberalisation, with an increase in value added of 12 to 18% (in China, the Tigers[4] and the Dragons[5]) and of almost 20% in India. In contrast, value added is reduced by more than 10% in Canada and in Mexico, and halved in Maghreb countries, where a substantial adjustment becomes a necessity. In textiles too , the Dragons record increased value added, mainly at the expense of

Canada, SACU, ANZCERTA and Mexico. In this reshuffling of industrial market shares, the Asian countries thus play a prominent role, illustrating the strong offensive interests of China and the Tigers in light industry.

Another study on the erosion of tariff preferences , potentially associated with the Doha Round (Bouët, Fontagné & Jean, 2005), shows that trade preferences are still high in the textile and clothing sector, which is a much debated issue concerning European preferential schemes. Even when account is taken of the evidence of overlapping preference schemes, the problem of underutilisation of preferences is identified for this industrial sector, in contrast to other sectors.[6] The reasons are the strong international division of labour which is taking place in this industry, and the importance of this industrial sector for poor countries. Here, the arguments about the use of Rules of Origin as protective instruments are fully applicable. Actually, as regards the EU, the problem of the underutilisation of preferences in textiles and clothing is limited to the GSP scheme and does not, for instance, extend to the Cotonou Agreement, although this agreement fully covers the sector. Still, the problem is important, especially for the Everything But Arms (EBA) Initiative, where preferential margins are rather large. Thus, the underutilisation of preferential schemes is widespread for textile and apparel products, which seriously undermines the benefit that poor countries can reap from most non-reciprocal preferential agreements.

1 - *Maquiladoras*, also known as *maquilas*, *in bond companies* or *twin plants* are foreign- (mostly American-) owned assembly plants in Mexico, importing US inputs duty-free and exporting finished products to the USA, duty-free.
2 - Girard formula, so-named after the Swiss Ambassador Pierre Girard (Chair of the Non-Agricultural Market Access (NAMA) negotiations), takes into account the simple average of *ad valorem* base tariff rates: for a given initial base rate, the higher the initial average, the lower the tariff cut applied.
3 - Commitments made by WTO member states relate to bound tariffs and not to tariffs actually applied.
4 - Malaysia, Thailand and Philippines.
5 - Korea, Hong Kong, Singapore and Taiwan.
6- In agriculture, preferences have been well utilised (at around 90 percent).

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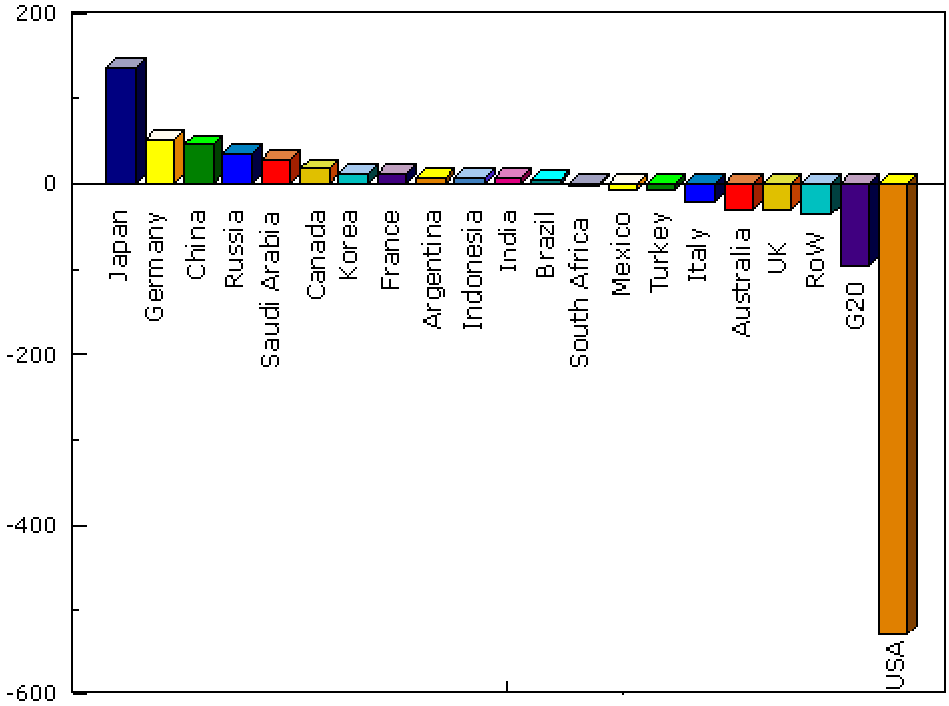
ON THE RESEARCH AGENDA

Equilibrium Exchange Rates in the G20

The usual way of measuring exchange-rate misalignments is to estimate (or calculate) real equilibrium exchange rates and to compare them to observed ones. This exercise is generally performed on real effective exchange rates since the whole current account of each country (not the bilateral one against a specific country) needs to be taken into account. Bilateral misalignments can be recovered through inverting the weighting matrix of each trade partner in the definition of effective exchange rates. The problem then is that only *n-1* independent bilateral rates can be recovered from *n* misalignments in effective terms. Dropping the "rest of the world" is not satisfactory. For instance, according to World Bank figures (see the Graph below), the so-called G20 generated an aggregate USD 96 billion deficit in 2003. This means that on average G20 currencies were over-valued against the rest of the world. However, not accounting for the aggregate deficit of the rest of the world (USD 31 billion in 2003) leads to overestimating the misalignment of G20 currencies as a whole. Hence, due to the world current account discrepancy (USD 133 billion in 2003, according to the World Bank), it may be safer to calculate major bilateral misalignments in a closed setting, i.e. it is not assumed that the rest of the world is going to adjust its exchange rate according to the needs of the G20.

Current Account Balances in 2003
(current USD)



Source: *World Development Indicators 2005*, World Bank

We estimate bilateral exchange-rate misalignments within the G20, and investigate the impact of taking the rest of the world into account or not. We also look for potential heterogeneity in the determination of the real exchange rate within the sample, by comparing the results of panel estimations and country-by-country estimations.

Measures of bilateral misalignment are thereafter used to gauge the impact of *de facto* exchange-rate pegs on the US dollar for bilateral misalignments of other currencies. The idea is that the amount of bilateral adjustment needed is lower, the higher the number of flexible currencies within the G20. However, the reverse phenomenon applies for those currencies needing to adjust in the same direction as pegged currencies.

The underlying theoretical model is the same as in Bénassy-Quéré *et al.* (2004)[1]: we estimate a behavioural equilibrium exchange rate (BEER) based on the net foreign asset position and on the productivity differential between the traded goods and the non-traded goods sectors. Now, the use of quarterly rather than annual data allows us to provide much more robust estimations and to perform the various exercises detailed above.

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

1 - BÉNASSY-QUÉRÉ, A., DURAN-VIGNERON, P., LAHRÈCHE-RÉVIL, A. & MIGNON, V. (2004), "Burden Sharing and Exchange-Rate Misalignments within the Group of Twenty", in Bergsten, C. F. & Williamson, J., eds., *Dollar Adjustment: How Far? Against What?*,

IIE Special Report 17, November, pp. 69-94.

The Threat of Preference Erosion Following the Doha Round is Real, but Focused

The erosion of trade preferences for developing countries is a key issue of the ongoing round of multilateral trade negotiations. Since tariff cuts are applied to bound import duties, not to applied tariffs, preferential rates are cut by proportionately less than the MFN applied rates and preferential margins are eroded. These huge differences in average duty faced by exports are the result of the combination of a composition effect (different product and destination market specialisations) and of a preferential margin. Compared to the world average preferential margin, a country might benefit from a higher or lower margin, a difference which is the “true” preferential margin. Countries with a high, true preferential margin are mainly sub-Saharan and Caribbean. Margin values in agriculture, are as high as 25 percentage points for Lesotho and Aruba, and higher than 6 points for countries like Gambia and Mali. True preferential margins are less varied in non-agricultural products, but still significant: 57 countries exhibit an average true preferential higher than 2 percentage points.

Furthermore, preferential tariff rate quotas are common among agricultural products and give rise to substantial rents that will be reduced, following cuts in the out-of-quota tariff rates. These rents are as high as 8.3% of GDP for Guyana, or 2.9% for Mauritius. Besides sub-Saharan and Caribbean countries, Central-America is also represented.

The simulated impact on preference margins of a tariff-cutting formula, directly inspired by the Harbinson proposal on true preferential margins, is spectacular in agriculture: among the twelve countries with an initial preference margin higher than 6 points, only four end up with a margin higher than 3 points after the tariff-cutting formula is applied. Taking into account the under-utilisation of preferences would only change the broad picture marginally, given that several recent studies suggest that trade preferences tend to be well-used in agricultural products.

In sum, the threat of preference erosion following the Doha round is real, and the magnitude of future difficulties for poor countries might have been understated. This is particularly worrying, since the erosion of preferences is concentrated on a limited number of African and Caribbean countries, which have very low adjustment capacities due to the combination of often-deficient capital markets, of the existence of many obstacles to labour mobility, and of the absence of safety nets and labour training capacities.

Antoine Bouët, Lionel Fontagné & Sébastien Jean

This work will be published as Chapter 6 in "Agricultural Trade Reform and the Doha Development Agenda", edited by Kym Anderson and Will Martin, Oxford University Press & the World Bank.

The Long Term Growth Prospects of the World Economy

One of the major sources of change in the world economy has come from the rise of large developing countries. The growth generated by these countries could become a much larger force in the world economy than it is now. This study develops long-term forecasts for world economic growth. It does not simply extrapolate from current growth rates, but sets out a formal framework to generate long-term growth predictions.

An extended Solow approach allows output growth to be broken down into factor (capital and labour) contributions and total factor productivity growth. Econometric analysis of past performance (1960-2000) is carried out to describe the process by which physical and human capital accumulates over time. The latest demographic projections from the United Nations and a model of productivity growth are used to map out GDP growth and income per capita of countries until 2030. It is assumed that technology changes, as part of a catch-up process with the most developed countries.

The speed of convergence is assumed to depend on the productivity level, with the assumption that as developing countries approach the productivity of the more developed economies, their TFP growth rate slows. Such convergence is modelled to take place in a heterogeneous manner across regions of the world. Various scenarios for catch-up are simulated on the basis of several, differentiated assumptions, to ensure the robustness of our predictions. The work specifically gauges how large a force the major developing countries, such as China and India, could become over the next 30 years.

Sandra Poncet

The Transmission of Economic Cycles between the United States and the Euro Area through Financial Integration

The CEPII has recently undertaken a new research project aimed at analysing the potential consequences of increasing financial integration as a strengthened transmission mechanism of shocks between the United States and the euro area.

As usual in this kind of study, the measure of financial integration between two areas is based on rolling regressions. These regressions have been computed on a large range of financial variables (nominal and real long term interest rates, stock indexes, their levels, and monthly variations, etc). The result of this first empirical investigation is that financial integration has increased over the last decades between the two areas, as the correlations based on rolling windows always display an upward trend.

Given these results, one question that arises deals with the potential consequences of such increasing financial integration on the transmission of economic cycles. In particular, it may be asked whether this deeper financial integration has strengthened the transmission of financial shocks (interest rate, stock indexes, etc) between the two areas. In order to answer this question, the research focuses on private consumption in the euro area. The empirical strategy is the following. First, an error-correction equation (EC-equation) on the European long term real interest rate is estimated. The latter depends noticeably on the US long term real interest rate. This specification is estimated over two sub-periods: 1980-1994 and 1989-2002.

Looking at the impulse response functions based on this EC-equation, it appears that the response of the European interest rate to a shock on the US interest rate was stronger in the more recent sub-period (1989-2002). Second, an error-correction equation on European private consumption is estimated. As usual in such a specification, the behaviour of household consumption is dependent on the European real interest rate. This EC-equation is estimated over the same sub-periods defined previously for the interest rate equations. With these specifications, it is then possible to measure the “indirect” response of European private consumption to a shock on the US interest rate, for the two sub-periods. Indeed, the European interest rate reacts to a shock on the US interest rate and the former affects European consumption behaviour. The results of these simulations show that the decrease of European consumption in response to the same initial rise on the US interest rate was larger in the more recent sub-period, when financial integration between the two areas was higher. These first results highlight the fact that the increasing financial integration could act as a strengthened transmission mechanism of shocks between the two areas.

Vladimir Borgy

DATABASES

Institutional Profiles

Since the late 1990s, the literature on economic development has been renewed by focusing on the quality of domestic institutions as a key explanation of cross-country differences in both growth rates and income per capita (see IMF, 2003 and Acemoglu *et al.*, 2005, for recent surveys). Efficient protection of civil and property rights, extended economic and political freedom and low levels of corruption have been shown in particular to be associated with higher prosperity. In this type of work, the crucial issue is whether good institutions can promote development, or whether it is necessary to reach a certain level of wealth to improve institutions. The reverse causality problem (GDP per capita explaining the level of institutions) has been tackled by instrumenting institutions with geographic variables such as the latitude of the country (Hall and Jones, 1999).

Simultaneously, there has been a growing interest in the determinants of foreign direct investment (FDI) in developing countries, as FDI is considered to be one of the most stable components of capital flows to developing countries and can also be a vehicle for technological progress through the use and dissemination of improved production techniques. Not surprisingly, thus, a number of authors have also studied the link between institutions and FDI. Such a link could be seen as one channel through which institutions promote productivity growth. Indeed, good institutions are supposed to exert their positive influence on development through the promotion of investment in general, which faces less uncertainty and higher expected rates of return.

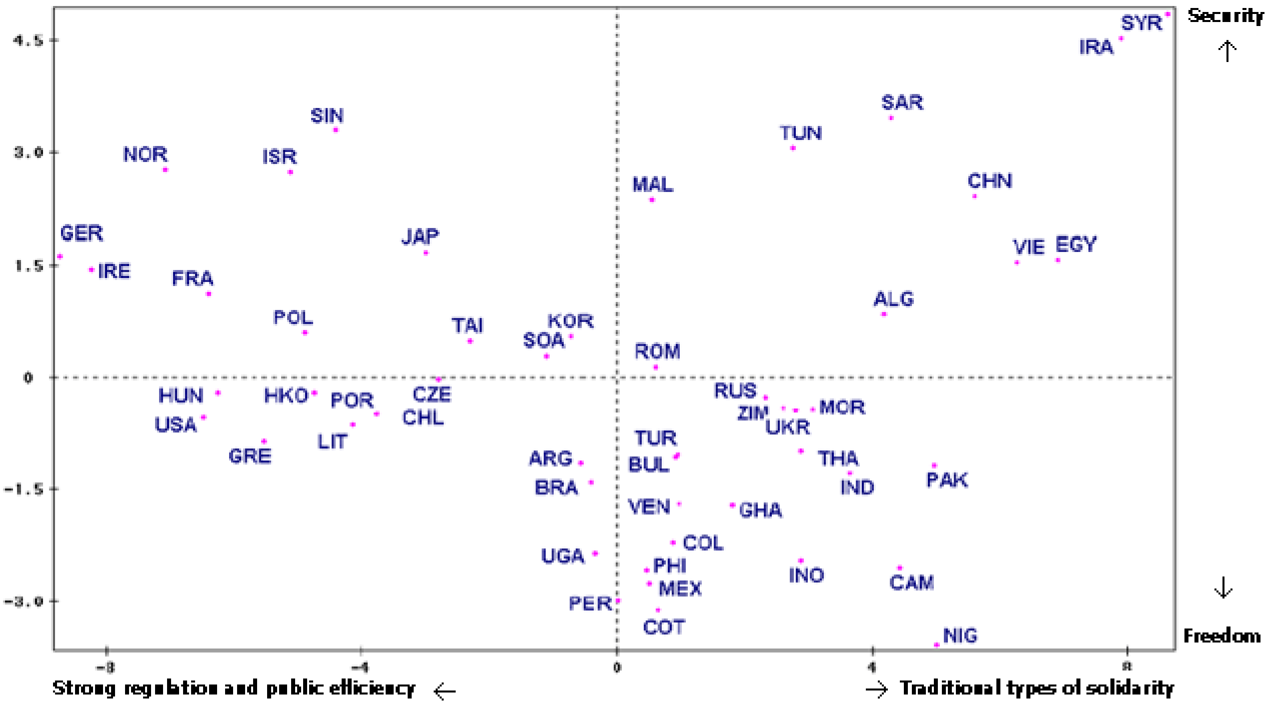
Empirical analysis of the impact of institutions in a broad sense on growth or FDI can be based on data provided by the World Bank and private institutions, most of them British or American. Nevertheless, the fact that this data is incomplete or aggregated makes interpretation of results difficult in normative terms. The database called Institutional Profiles provides, for the first time, a series of detailed data making it possible to draw a precise institutional portrait for 51 countries (most of them developing and emerging countries). This original database was created in 2002 by the French Ministry of the Economy, Finance and Industry (MINEFI). The 330 basic data items per country were collected using a questionnaire completed in 2001 by the French Trade Commissions of the MINEFI in the selected countries, covering 80% of the world's GDP and population. The questionnaire covers nine institutional topics which are then detailed for the three markets (goods & services, capital, labour) as well as for the global environment of each country (see Table). This database is now downloadable from the CEPII’s website.

Structure of the questionnaire

Institutional sectors shown in the columns	**INSTITUTIONAL ENVIRONMENT**	**MARKETS**		
Institutional themes in the rows	**A - Public institutions, Civil society**	**B - Goods and services**	**C - Capital market**	**D - Labour market and social relations**
1-Political institutions	Public rights and liberties			Trade union freedom and pluralism
2-Safety, law and order	Safety of persons and goods			
3-Public governance	Transparency, mastery of corruption, efficiency of administration, independence of the justice system	Collusion between the government and firms	Collusion between the government and banks	Informal labour
4-Markets’ operating freedom		Share of the private sector, privatisation, price distortions introduced by the government	Share of the private sector, freedom of interest rates, independence of the central bank	Flexibility of the formal labour market
5-Technological environment, preparation for the future	Innovation and R&D, preparation for the future		Venture-capital, access to credit	Vocational training
6-Security of transactions and contracts	Security of property rights and contracts, commercial justice, bankruptcy law	Information on the quality of goods, the situation of firms, intellectual property	Guarantee systems, obligation to provide information	Respect for labour laws
7-Regulations and corporate governance	Regulation of competition	Competition Corporate governance	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	Social equilibrium equality of treatment, social mobility, solidarity		Micro-lending	Market segmentation

Berthelier, Desdoigts and Ould-Aoudia (2003) present the methodology used, as well as a preliminary investigation of the data. They define four major institutional “families” of countries: “authoritarian-paternalistic”, “mild liberal”, “pure liberal”, and “informal” (Graph 1).

Graph 1
Main Component Analysis



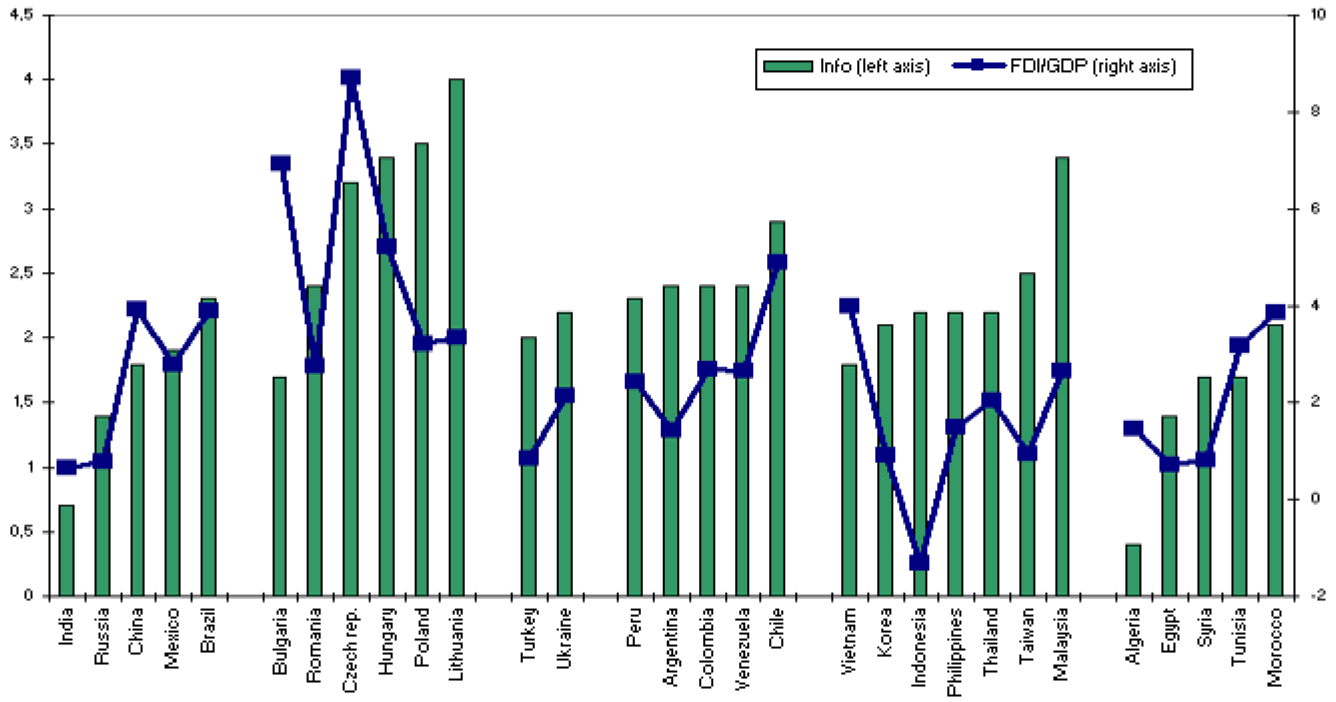
Note: Authoritarian-paternalistic: north-east. Mild liberal: north west. Pure liberal: south west. Informal: south-east.
Source: Berthelier *et al.* (2003)

The database also allows detailed study of which institutional profile, or which specific institution, matters most for economic development. Such analysis has been applied by Bénassy-Quéré, Coupet and Mayer (2005) to FDI, who show that institutions matter for attracting FDI, independently of GDP per capita which also impacts on attractiveness. They point out that public efficiency in a broad sense is a major determinant of inward FDI. This includes tax systems, easiness to create a company, lack of corruption, transparency, contract law, security of property rights, efficiency of justice and prudential standards.

One interesting finding is the importance of public efficiency to capital markets (transparency and quality of corporate information, prudential standards and surveillance, etc). This point is illustrated in Graph 2. There is a positive relationship between the quality of corporate information and the average inward FDI/GDP ratio over 2000-2003. This is true for large emerging economies (Brazil, Russia, India, China, Mexico) as well as for countries surrounding the European Union (Ukraine, Turkey, the southern Mediterranean countries). This relationship is less clear for south America. It does not seem to apply among new or future EU member states nor among east Asian countries, but the higher quality of information for the former as a group is reflected in a higher FDI/GDP ratio.

This observation confirms the fact that the capitalist path to development needs strong regulation and a high degree of transparency, especially for those countries which are unable to attract foreign capital just because of huge market opportunities (like the Chinese market).

Graph 2
Information on Firms and FDI



Source: Institutional Profiles and UNCTAD

Agnès Bénassy-Quéré

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EVENTS

The Outlook for Stock Markets

The role of stock markets in the rise of the new economy and the impact of their downturn from 2000 to 2002 have been much documented. However despite sustained productivity gains, as well as the return to robust growth in the United States, and in the face of very low long term interest rates, share price performance has remained stubbornly below its record of the 1990s. What are the reasons for this? And what does the future hold for this unusual set of circumstances? A series of questions regarding these matters were treated during this symposium, co-organized by the CEPII, the CIREM and Groupama Asset Managment, 29 September 2005 in Paris.

Other issues are linked to this key subject. The first one concerns the impact of globalisation. How is the interdependence of stock markets understood and assessed? If the driving force of world growth is shifting towards Asia, what are the likely consequences for Western stock markets? Are European stock markets becoming more integrated despite the difficulties market institutions face when merging?

The consequences for market traders, regulators and central banks were also discussed. How are institutional investors, who manage large portfolios, behaving? What is the current state of regulation and the supervision of gatekeepers, who are meant to underpin the efficiency of stock markets? The central bankers in charge of monetary policy since 2001 have become aware of the influence of stock prices and market valuations of assets on the economy. But this preoccupation has remained informal. Is it possible to be more systematic in taking into account the financial environment?

An Anatomy of International Trade: Evidence from French Firms

On the 28 October 2005, Jonathan Eaton (Department of Economics, New York University & NBER) came to the CEPII to present the equilibrium model of worldwide competition, across a range of goods, he has developed together with Samuel Kortum (Department of Economics, University of Minnesota, Federal Reserve Bank of Minneapolis, and NBER) and Francis Kramarz (CREST-INSEE and CEPR).

This model encompasses Ricardian and monopolistic competition as special cases and the authors have parameterised the model to gauge its ability to capture the export behaviour of French manufacturing firms. They have concluded that a quite simple model of monopolistic competition, with technological heterogeneity as well as good- and country- specific shocks to entry and to sales, can pick up the basic features of the micro-level data very well.

The CEPII Business Club's Meetings

Series of meetings on China:

The Chinese Financial System

19 September 2005

Patrick Artus (Ixis Corporate & Investment bank) opened this workshop with a few comments on the recent improvements of the Chinese banking sector thanks to recapitalisation of state owned commercial banks (SOCBs) and the transfer of non-performing loans (NPLs) to asset management companies (AMCs). Guonan Ma (BIS, Hongkong), talking about the state of banking sector, suggested there are three possible payers for the costs of the China's banks restructuring: bank shareholders, bank customers, and taxpayers in general. Victor Shih (North Western University, Chicago), dealing with "The Political Dimension of the NPLs", highlighted the fact that the Chinese decision-making process in financial policy formulation often comes as a surprise not only for foreign investors, but even for Chinese academics. There are many impetuses for new policies, but there is a strong tendency for rapid fixes of problems and a disregard for long-term consequences. Wing Thye Woo (University of California) started his presentation entitled "The Potential Fiscal Havoc from China's Fragile State Banks" by displaying statistical evidence on the evolution of NPLs between 1996 and 2004. He presented alternative scenarios in terms of the State's fiscal position in case the recapitalisation moves forward. Athar Hussain (London School of Economics) talked about the interaction of three agents in the banking sector reforms: enterprises, government, and banks. He stressed the importance of incentives for enterprises to repay loans. Charles Goodhart (London School of Economics) started his presentation on State control, banking sector problems and the conduct of monetary and exchange rate policies in China, by referring to the forthcoming book of Chiu and Lewis. According to this publication, bank loans are the main sources of financing since stock and bond markets show a disappointing performance.

This workshop, coorganised by the CEPII, had the support of the French Ministry of Foreign Affairs' Centre of Analysis and Forecasting (CAP).

Argentina Since 2002: the State of the Recovery?

22 September 2005

The Argentine economy has experienced a strong recovery since the end of 2002. Growth has been averaging about 8% per year, while the balance of payments, public finances and even investment have performed well. Nevertheless, strong doubts remain. The benefits of growth are shared out very unequally, and the basis for long term growth is still fragile, especially from a financial point of view. An assessment of recent developments and the key issues of economic policy over the medium term was presented by Daniel Heymann, Chief Economist for the CEPAL in Buenos Aires, author of numerous scientific publications and professor at the University of Buenos Aires. He has also been a recognised expert of Argentina's economic policy for more than 20 years.

WORKING PAPERS

Binding Overhang and Tariff-Cutting Formulas

No 2005-18, October

Trade negotiations deal with possible cuts in bound duties, which differ substantially from applied preferential duties, and even from MFN applied duties. Based on the WTO's Consolidated Tariff Schedules (CTS) database and on national sources, this paper proposes a systematic assessment of *ad valorem*-equivalent bound duties at the detailed product level, for almost all WTO members. Fully consistent with the assessment of applied protection provided in the MAcMap-HS6 database (Bouët *et al.*, 2004), this work allows the full structure of protection (bound, MFN applied, preferential applied duties) to be accurately assessed. We are thus able to provide the first ever worldwide assessment of the binding overhang, i.e. the gap between bound and applied MFN tariffs. We also assess the likely applied-protection impact of an agreement in the Doha Round, based on the Harbinson Proposal for agricultural products, and on the Girard Proposal for non-agricultural products. In all cases, we show the difference between bound and applied protection to be vital to understanding both the structure of protection worldwide, and the possible impact of liberalisation scenarios cutting bound duties, as used to be the case in multilateral liberalisations.

Hedi Bchir, Sébastien Jean & David Laborde

International Trade and Income Distribution: Reconsidering the Evidence

No 2005-17, October

This paper reconsiders the evidence concerning the influence of international trade on income distribution. Our analysis is based on a theoretical model which does not make any restrictive assumption about how trade specialization is linked to factor endowments. In this framework, the influence of international trade changes on income distribution is captured by a specific definition of the factor content of net export changes. Our main empirical finding is that the factor content of net export changes, expressed relatively to the country's factor endowment, does have a significant impact on income distribution, but the sign and magnitude of this impact is conditional on country's income level or on the share of uneducated labour in the population.

Isabelle Bensidoun, Sébastien Jean & Aude Sztulman

China and the Relationship Between the Oil Price and the Dollar

No 2005-16, October

We study cointegration and causality between the real price of oil and the real price of the dollar over the 1974-2004 period. Our results suggest that a 10% rise in the oil price coincides with a 4.3% appreciation of the dollar in the long run, and that the causality runs from oil to the dollar. Through the development of a theoretical model, we then investigate possible reasons why this relationship could be reversed in the future due to the emergence of China as a major player on both the oil and the foreign exchange markets.

Agnès Bénassy-Quéré, Valérie Mignon & Alexis Penot

Consequences of Alternative Formulas for Agricultural Tariff Cuts
No 2005-15 September

This paper assesses the impacts of alternative approaches to liberalising agricultural market access within the broad guidelines provided by July 2004 Framework Agreement for the Doha Development Agenda. Computations are carried out at the finest level available on an internationally comparable basis, and take into account non-*ad valorem* tariffs, tariff preferences and the gap between bound and applied duties. Examination of different tiered formulas shows that only formulas that bring about very deep cuts in bound rates will have a substantial impact on applied tariffs and hence on market access. Another key finding is the extraordinary sensitivity of the results to self-selected sensitive and special products.

Sébastien Jean, David Laborde & Will Martin

Is Erosion of Tariff Preferences a Serious Concern?
No 2005-14 September

This paper aims to clarify the specific issues raised by trade preferences, in particular non-reciprocal ones, as they pertain to the Doha round. We evaluate the extent of tariff preferences through both a measure of the "true" preferential margin and an assessment of tariff-rate quota rents. We find that the threat of preference erosion following the Doha round is real, insofar as trade preferences are now playing a key role in the world trading system, and in particular in the pro-poor policies undertaken by rich countries. Although the problem is focused on a handful of products and on a limited number of countries, our analysis suggests that the magnitude of forthcoming difficulties for poor countries could be significant in many cases.

Antoine Bouët, Lionel Fontagné & Sébastien Jean

The CEPII's Working Papers are available free, on-line, in PDF format; hard copies are also available on request.

RECENT PUBLICATIONS

ECONOMIE INTERNATIONALE, QUARTERLY

No 102, 2nd Quarter 2005

ECONOMIC CONSEQUENCES OF EUROPEAN ENLARGEMENT

Presentation
Lionel Fontagné & Michael A. Landesmann

Looking Forward Towards the ERM II Central Parity: The Case of Poland
Jakub Borowski, Anna Czogala & Adam Czyzewski

Which Exchange Rate Regime in Central European Countries?
Patrick Artus

Price Convergence in EU-Accession Countries: Evidence from the International Comparison
Martin Cihák & Tomáš Holub

Effects of FDI Inflows on Regional Labour Market Differences in Hungary
Károly Fazekas

Central and East European Industry in an Enlarged European Union: Restructuring, Specialisation and Catching-up
Peter Havlik

Economie Internationale publishes papers dealing with a wide range of issues in applied international economics. Papers cover topics like macroeconomics, money and finance, trade, transition, European integration and regional studies. *Economie Internationale* especially encourages the submission of articles which are empirical in nature and emphasises the rigour of empirical analyses and data processing. With articles being submitted from economists in universities, central banks and private financial institutions worldwide, the journal achieves a considerable diversity and provides many viewpoints on international economic and financial questions. Papers can be submitted, following certain rules.

BOOKS

L'Economie mondiale 2006
Edited by Agnès Chevallier
Publisher: Repères, La Découverte, 2005

L'état de l'économie mondiale

Croissance à crédit
Vladimir Borgy

États-Unis, Europe, Japon
Vladimir Borgy

Asie, Amérique latine, Afrique
Jean-Raphaël Chaponnière, Anne-Laure Baldi & Jean-Pierre Patat

Russie, Europe centrale et orientale , Turquie, Méditerranée
Vincent Caupin, Emma Ménascé & Yves Zlotowski

Les dossiers stratégiques

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Michel Aglietta

Politiques agricoles chinoises : la porte étroite
Claude Aubert

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Guillaume Gaulier, Sébastien Jean & Deniz Ünal-Kesenci

Le point sur

Les choix de localisation des entreprises
Lionel Fontagné & Thierry Mayer

Base de données sur l'économie mondiale
Colette Herzog

Chronologie de l'économie mondiale
Julie Lochard

NEWS IN BRIEF

Bernard Decaluwé, Professor of Economics at the Faculty of Social Sciences, University of Laval Quebec, joined the CEPII as a visiting researcher, in October 2005. He is a member of the Inter-university Centre for Research on Risk, Economic policies and Employment (CIRPEE). As a specialist in international economics, Bernard Decaluwé is particularly concerned with trade and exchange rate policies, and more generally with the economic policies of developing countries. Specialised in computable general equilibrium modelling, he is working with researchers at the CEPII who have gained international experience in this field (MIRAGE, DREAM). His contribution focuses mainly on the impact of trade policy on poor countries.

The MIRAGE team has experienced several changes since September. Sébastien Jean has left the CEPII to join the OECD (Paris) and Mohamed Hedi Bchir has moved on to the United Nations Economic Commission for Africa (Addis Ababa). Meanwhile, Sophie Drogué, an engineer from the INRA, has joined the CEPII as a research fellow, working in the area of GIs and Trade Policy. Maria Priscilla Ramos and Cristina Mitaritonna have also joined the team.

Cyrille Schwellnus has also come to the CEPII as an economist. He has been a consultant at the Economic Commission for Latin America and the Caribbean of the United Nations and the Asian Development Bank, and holds a PhD from the IUE in Florence. Isabelle Méjean, formally with the CREST (Paris) will work on the effect of trade on macroeconomic equilibria and particularly on price formation.

FORTHCOMING

Ith Doctoral Meetings in International Trade and International Finance
Organised by Paris-Jourdan Sciences Economiques (PSE), the University of Geneva and the CEPII, as part of the activities of the Research in International Economics and Finance (RIEF) network
5-6 January 2006

New Regionalism: Progress, Setbacks and Challenges
Conference organised by the IDB and the CEPII
9-10 February 2006

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