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978-0-521-88606-2 - Globalisation, Regionalism and Economic Interdependence

Edited by Filippo di Mauro, Stephane Dees and Warwick J. McKibbin

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Globalisation, Regionalism and Economic Interdependence

How has increasing economic integration at the regional and global levels affected the functioning of the global economy? What are the consequences of globalisation and regionalism for world trade, production processes and domestic economies? What kind of economic adjustments do these phenomena imply in terms of factor mobility and relative costs?

Globalisation, Regionalism and Economic Interdependence addresses these and other questions by exploring the relationship between globalisation and regionalism from both academic and policy-making perspectives. It assesses the extent to which increased global and regional integration has changed the functioning of the world economy and analyses the implications for global trade, the relocation of production, structural changes and the international transmission of shocks. With contributions from both academics and professionals, this book is an invaluable guide to the increasingly important effects of the interaction between globalisation and various different forms of regional integration.

Filippo di Mauro is Head of the External Developments Division at the European Central Bank in Frankfurt. His first book was *The External Dimension of the Euro Area* (Cambridge, 2007), co-edited with Robert Anderton.

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CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore,
São Paulo, Delhi

Cambridge University Press

The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press,
New York

www.cambridge.org

Information on this title: www.cambridge.org/9780521886062

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First published 2008

Printed in the United Kingdom at the University Press, Cambridge

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data

Globalisation, regionalism, and economic interdependence / edited by
Filippo di Mauro, Stephane Dees, and Warwick McKibbin.

p. cm.

ISBN 978-0-521-88606-2

1. International economic integration. 2. Free trade. 3. Regionalism.

4. Globalization. I. Di Mauro, Filippo. II. Dees, Stephane. III. McKibbin,
Warwick J., 1957– IV. Title.

HF1418.5.G5735 2008

337–dc22

2008024828

ISBN 978-0-521-88606-2 hardback

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Contents

<i>List of figures</i>	<i>page</i> vi
<i>List of tables</i>	viii
<i>List of contributors</i>	x
<i>Preface</i>	xiii
Introduction	
<i>Stephane Dees, Filippo di Mauro and Warwick J. McKibbin</i>	1
1 International linkages in the context of global and regional integration	
<i>Stephane Dees, Filippo di Mauro and Warwick J. McKibbin</i>	5
2 Trade integration of the central and eastern European countries and China: has it reached potential?	
<i>Matthieu Bussière and Bernd Schnatz</i>	22
3 Patterns and determinants of production fragmentation in world manufacturing trade	
<i>Prema-chandra Athukorala and Nobuaki Yamashita</i>	45
4 Going global: trade, internationalisation of production and domestic performance of euro area firms	
<i>Ingo Geishecker, Holger Görg and Daria Taglioni</i>	73
5 Globalisation and the trade channel in the euro area	
<i>Robert Anderton and Filippo di Mauro</i>	102
6 Gauging the labour market effects of international trade openness: an application to the US manufacturing sector	
<i>Isabel Vansteenkiste and Paul Hiebert</i>	126
<i>Index</i>	160

Figures

2.1	Extra-euro area trade shares	<i>page 24</i>
2.2	Trade shares of NMS and China in extra-euro area trade (2004)	25
2.3	Growth in trade shares of NMS and China in extra-euro area trade (1995–2004)	26
2.4	Globalisation index based on normalised time effects	33
2.5	Overall trade integration indicators	34
2.6	CEEC: indicator of bilateral trade linkages	38
2.7	China: indicator of bilateral trade linkages	39
3.1	World manufacturing trade (1988–2005)	51
3.2	Share of parts and components in manufacturing exports by region (1988–2005)	51
4.1	Domestic firms versus exporters and exporters versus MNEs (France and the United Kingdom, various size and performance measures)	84
4.2	Domestic firms versus MNEs (euro area, various size and performance measures)	87
4.3	Size and performance differences of firms	
	(a) Size and performance differences of firms with different numbers of foreign affiliates	90
	(b) Size and performance differences of firms with different geographical spread	91
4.4	Domestic MNEs' share of affiliates in different world regions, by firms' productivity level	92
4.5	Most frequent locations for affiliates of euro area MNEs	93
4.6	Size and performance of firms by location of foreign affiliates	95
5.1	World demand and euro area activity	103
5.2	External trade impacts and transmission mechanisms for the euro area	104
5.3	Export market shares	106
5.4	China's impact on euro area export market shares	107
5.5	Extra-euro area exports and imports as percentage of GDP	108

Cambridge University Press

978-0-521-88606-2 - Globalisation, Regionalism and Economic Interdependence

Edited by Filippo di Mauro, Stephane Dees and Warwick J. McKibbin

Frontmatter

[More information](#)

List of figures	vii
5.6 Export shares of selected euro area countries	110
5.7 Intra- relative to extra-euro area imports of manufactured goods	113
5.8 Changes in euro area manufacturing import shares by region/country of origin (1995–2005)	113
5.9 Import shares by region for Germany, France and Italy	114
5.10 Share of euro area manufacturing imports from low-cost countries	116
5.11 Evolution of the euro area's exports, imports, net trade and GDP	117
5.12 Correlation between extra-euro area export and import volumes of goods	118
6.1 US employment, trade, productivity and compensation	
(a) US post-war payroll employment (seasonally adjusted)	128
(b) US real trade shares as percentage of real GDP	128
(c) US output per hour, year-on-year growth	129
(d) US real hourly compensation, year-on-year growth	129
6.2 US total import shares	
(a) US total import shares by economic area	134
(b) US manufacturing import shares by geographical area (2004)	134
6.3 Labour content of US goods trade with China and the rest of the world relative to total manufacturing employment	135
6.4 Relative importance of Asia (excluding China) and China job content of goods trade	
(a) Manufacturing job content of goods trade	138
(b) Total economy job content of goods trade	138
6.5 Labour content of trade (1989–2000)	139
6.6 Impulse responses by region of a positive one standard deviation shock to US manufacturing trade openness	
(a) Impact on full-time equivalent employment	143
(b) Impact on real compensation per employee	144
(c) Impact on productivity	145
(d) Impact on capital stock	146
6.7 Summary of impulse responses by sector of a positive one standard deviation shock to US manufacturing trade openness by region	
(a) Impact on full-time equivalent employment	147
(b) Impact on real compensation per employee	148
(c) Impact on productivity	149
(d) Impact on capital stock	150

Tables

1.1 Share of intra-regional/group trade as a percentage of total trade by region (1970–2004)	<i>page 7</i>
1.2 Correlation between quarterly changes in domestic and foreign variables (1979 Q1–2005 Q4)	11
1.3 Contemporaneous effects of foreign variables on their domestic counterparts (1979 Q1–2005 Q4)	11
1.4 Contributions to output fluctuations	13
2.1 Estimation results	31
3.1 World trade in parts and components (1992/3–2004/5)	50
3.2 Parts and components in manufacturing trade (1992/3–2004/5)	53
3.3 Direction of manufacturing trade: total manufacturing and parts and components (1992/3 and 2004/5)	56
3.4 Intra-regional trade shares: total manufacturing, parts and components and final trade (1992/3 and 2004/5)	59
3.5 Determinants of world trade in machinery and transport equipment (SITC 7): regression results (1992–2003)	65
3.6 Definition of variables and data sources used in regression analysis	66
3.7 Country coverage	67
4.1 Representativeness of the Amadeus sample	77
4.2 Representativeness of the Amadeus sample by size of employment (share of each size class as a percentage of the total)	77
4.3 Representativeness of the Amadeus euro area sample, by sector	78
4.4 Heterogeneity of manufacturing firms	80
4.5 Contributions of different types of firms to domestic employment, turnover and value added	82
4.6 Exporter and MNE advantages	88
4.7 Average number of foreign affiliates (overall, per location and per MNE)	89

Cambridge University Press
978-0-521-88606-2 - Globalisation, Regionalism and Economic Interdependence
Edited by Filippo di Mauro, Stephane Dees and Warwick J. McKibbin
Frontmatter
[More information](#)

List of tables	ix
4.8 Exit, survival and newcomer rate for the United Kingdom, France, Germany and Italy (2003 and 2006)	97
5.1 Balassa index of revealed comparative advantage of exports across regions	109
5.2 Revealed comparative advantage of exports for euro area, euro area countries and China	111
5A.1 Extra-euro area trade in goods: estimates of long-run elasticities	120
6.1 Labour content of total goods and manufacturing trade (2000–4)	135
6.2 The role of trade in the recent US ‘jobless recovery’ (2000–3)	137
6A.1 Input-output table implied weights	157

Cambridge University Press

978-0-521-88606-2 - Globalisation, Regionalism and Economic Interdependence

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Frontmatter

[More information](#)

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Frontmatter

[More information](#)

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xi

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[More information](#)

Preface

*Jürgen Stark*¹

One of the main features of recent times has been the establishment of new major players in world markets amid the rapid diffusion of information technology. With emerging Asia, as well as central and eastern European countries, rapidly integrating in a more globalised economic setting, worldwide competition has sharpened, also leading to major changes in the structure of international trade. While globalisation was unfolding, regionalisation, another – possibly older – process was gaining momentum as well, most notably in Europe. How are these two processes inter-related, though? Are they complementing or contradicting each other?

To be sure, globalisation and regionalism are not mutually exclusive and cannot be seen in isolation from each other. Both encompass a strong increase in cross-border transactions in goods and services, capital, labour and natural resources. Both imply a dramatic change in the international transmission of shocks and in the ways that economies relate to their international environment. Both confer clear economic benefits, but there are also significant challenges to face.

At the ECB we are well aware of such issues, and in 2005, together with the Lowy Institute for International Policy and the Centre for Applied Macroeconomic Analysis at the Australian National University, we jointly organised the conference ‘Globalisation and Regionalism’. Drawing partly from this conference, the book edited by di Mauro, Dees and McKibbin sets out to reply to the above-mentioned questions from both an academic and a policy-oriented viewpoint. Using a broad range of methodologies and techniques, the various chapters provide an overall understanding as to how the acceleration in the globalisation process interacts with the process of regional integration. The main aim is to analyse the implications for global trade, the relocation of production, structural changes and the international transmission of shocks.

¹ Member of the Executive Board of the European Central Bank (ECB).

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Frontmatter

[More information](#)

xiv Preface

Against the background of increasing economic integration at the global and regional levels, policies have an important role to play in order to improve economies' adaptability to new challenges, thereby raising the overall welfare of their citizens. From a euro area perspective, the Economic and Monetary Union (EMU) and the enlargement of the European Union (EU) – a prime example of regionalism – have not only fostered European economic integration but also made euro area countries better prepared for the challenges of globalisation. The euro, in addition to providing participating countries with a strong currency and a credible monetary policy, has helped them to cope with increasing trade and financial openness. The EMU has also heightened the need for other policies – beyond monetary policy – to be more proactive and coordinated. Interestingly, greater integration within Europe has gone hand in hand with stronger integration of Europe within the global economy. In trade terms, for example, the openness of the euro area as a whole – as measured by the share of total trade in GDP – continues to rise, and much more rapidly than for the United States and Japan, which shows that, despite increasing regional integration, there is no evidence that Europe is developing as a 'fortress'. Quite the contrary.

This notwithstanding, there is no space for complacency. While positive signs are evident, further adjustments appear to be needed to improve the functioning of the euro area economy. In particular, in several domains, the euro area still appears to be slow in adjusting to the major transformations occurring in its global and regional environment. Looking ahead, in the face of increasing trade liberalisation, protectionism and the shielding of jobs and industries from international competition are not conceivable as options. In order to reap the full benefits of globalisation, the euro area must make further efforts towards a knowledge-based economy. In this context, promoting firms' capacity for innovation and workers' skills are indeed crucial policy steps included in the Lisbon agenda. At the same time, economies need to adjust to the reallocation of production and the new competition from emerging markets in certain sectors. Economies with uncompetitive product markets and rigid labour markets not only fail to adjust to technological change but are also more vulnerable to shocks associated with the globalisation process. Reforming product and labour markets is therefore important to foster innovation and increase productivity potential, while raising the adaptability of all economic agents to a changing environment. In this respect, there is solid evidence that the euro area can turn this challenge into success for its citizens.