

Globalisation, regionalism and economic interdependence A euro area perspective

Filippo di Mauro European Central Bank

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A new book...

Globalisation, Regionalism and Economic Interdependence



Filippo di Mauro, Stéphane Dees and Warwick J. McKibbin

CAMBRIDGE

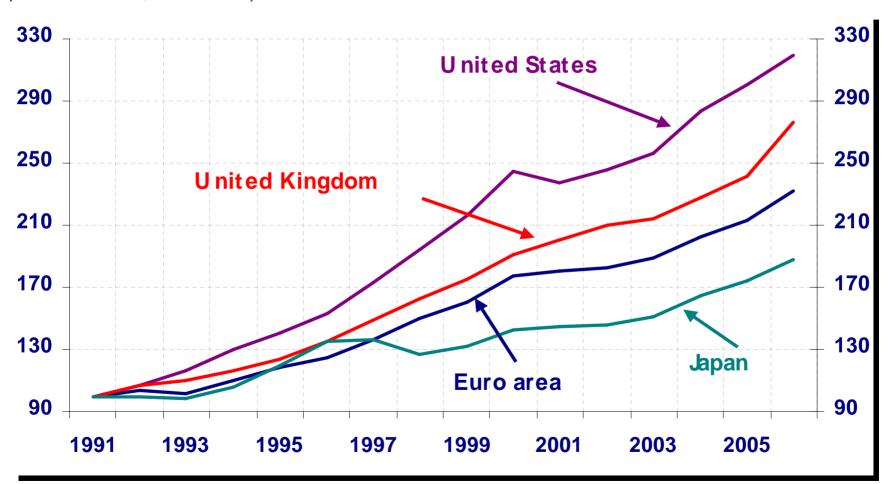
QUESTIONS

- How is the Euro Area affected by the external environment, by how much and in what circumstances?
- What was the impact of monetary union and how the latter interacts with globalisation forces?

How much does the international environment matter for the Euro Area?

Globalisation is associated with higher trade and imports

Imports in the industrialised countries



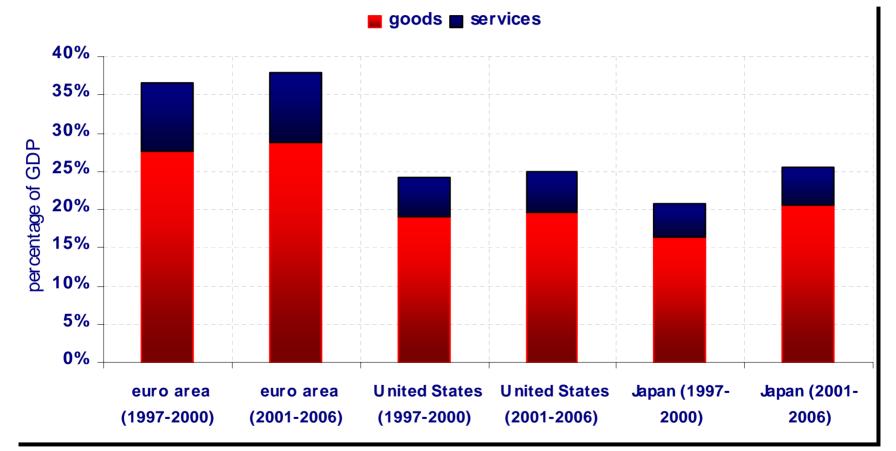
(Volume index, 1991=100)

Source: IMF World Economic Outlook.

Euro area is more open than other major economies ...

Openness of the euro area, the United States and Japan

(as percentage of GDP, in %)



Source: ECB calculations.

Note: The degree of openness is measured as exports plus imports as a percentage of GDP, average 1997-2006. Euro area based on extra euro area trade.

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Interaction with foreign environment is lately higher than average

1.0

0.8

0.6

0.4

0.2

0.0

-0.2

Correlation between euro area and foreign real GDP growth

(Correlation coefficients)

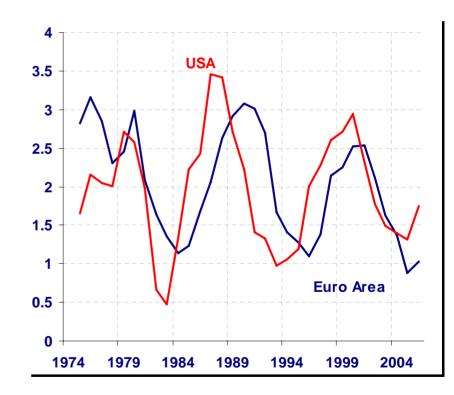
1984 1986 1989 1992 1995 1997 2000 2003

Full sample

— 5-year rolling sample

The growth rate of GDP per-head

(5 yrs moving average, in %)



Source : ECB.

1.6

0.8

0.6

0.4

0.2

0.0

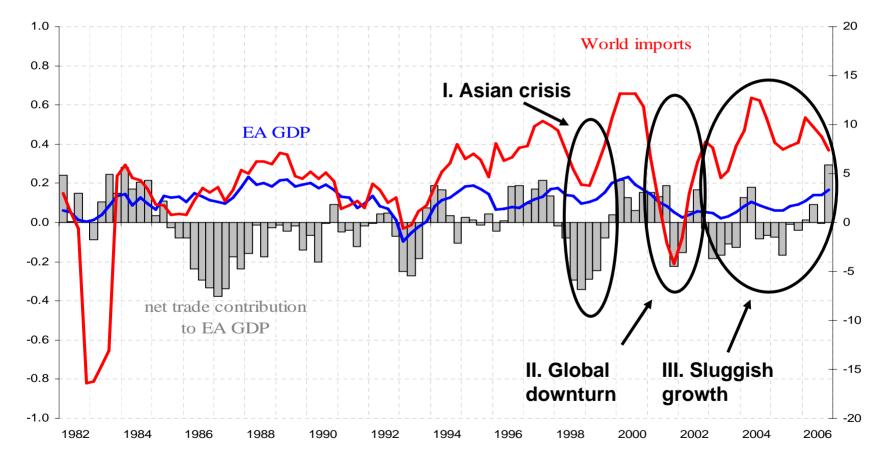
-0.2

Source: ECB

Transmission channels are different across episodes

Net trade contributions to EA GDP

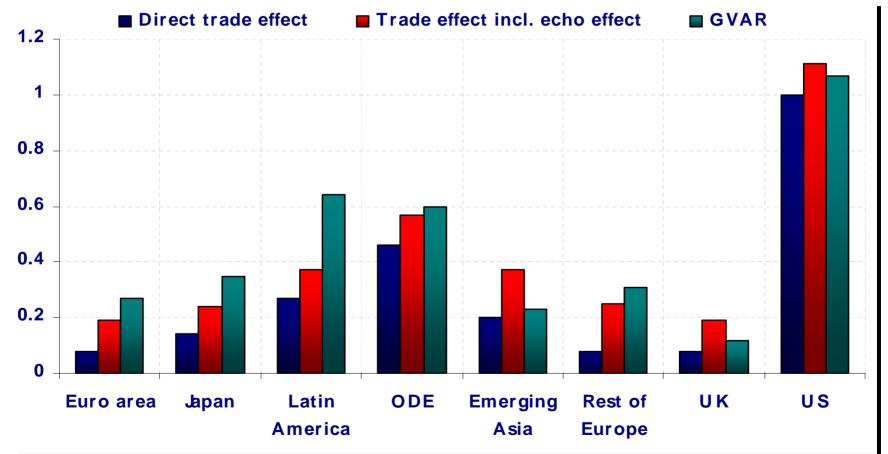
(index: 1980=100; 4-quarter moving average; year-on-year growth rate)



US idiosyncratic shocks have rather low impacts....

Effects of a US domestic demand shock (1 p.p. of GDP) on GDP of other countries/regions

(in percent)



Source: Dées, Vansteenkiste: The transmission of US cyclical developments to the rest of the world, ECB Working Paper Series.

The impacts become larger when the shocks turn global.

Simulation results of housing turmoil

(percentage point deviation from baseline growth rate)

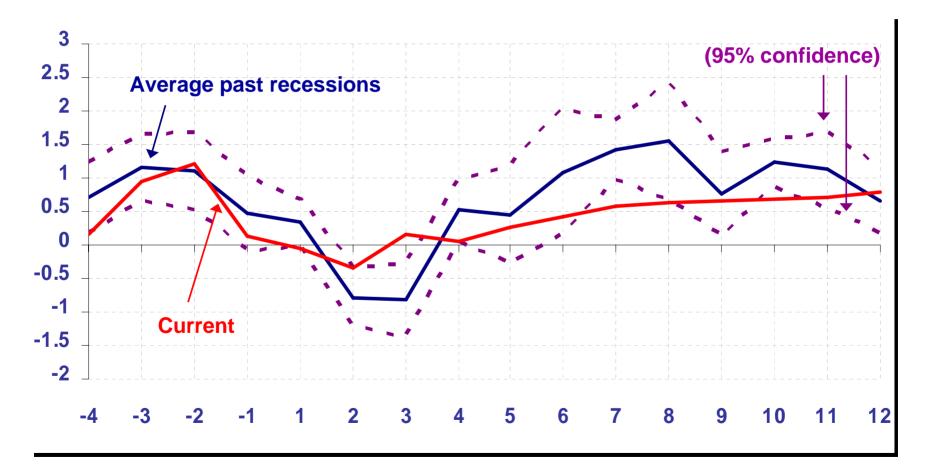
	2007	2008	2009	cumulated loss
Scenario 1				
USreal GDP growth	-0.1	-0.8	-0.4	-1.3
EA real GDP growth	0.0	-0.3	-0.3	-0.6
Elasticity EA growth to US shock				0.5
Scenario 2				
USreal GDP	-0.5	-1.9	-1.0	-3.4
EA real GDP	-0.2	-1.3	-1.2	-2.7
Elasticity EA growth to US shock				0.8

Source: NiGEM simulations.

For the current episode....it translates in a shallower downturn

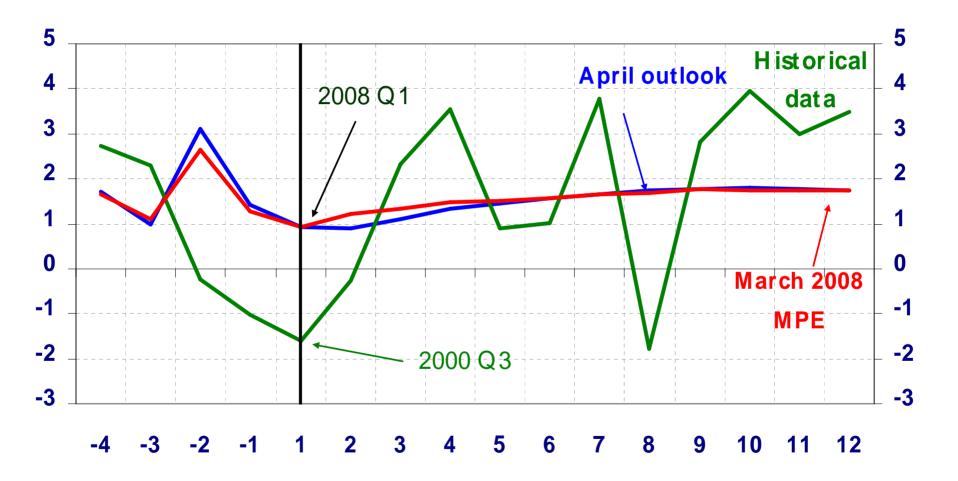
US real GDP growth

(in %, quarterly (lhs), annual (rhs))



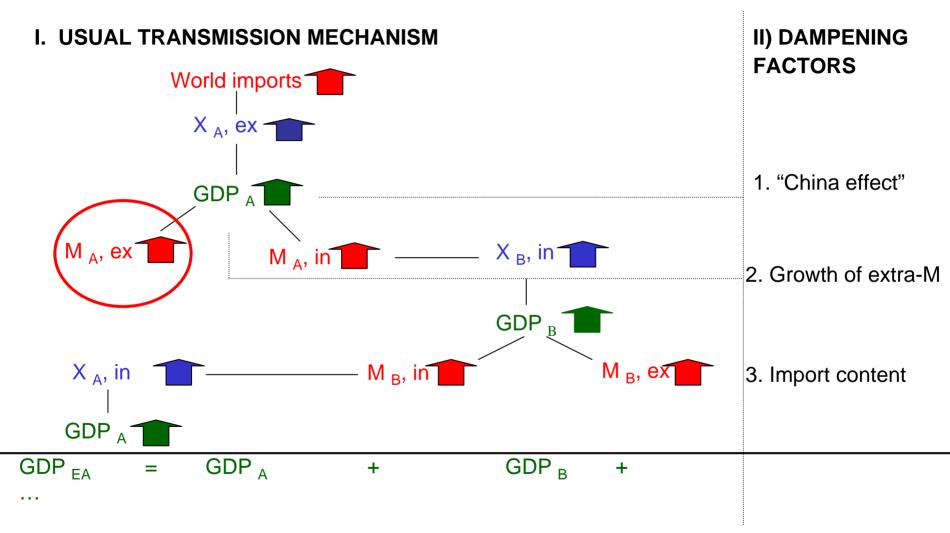
Source: ECB Staff.

...with much less impacts on Euro area trade



How globalisation interacted with monetary union

Trade channel: Interaction, globalisation, regional integration

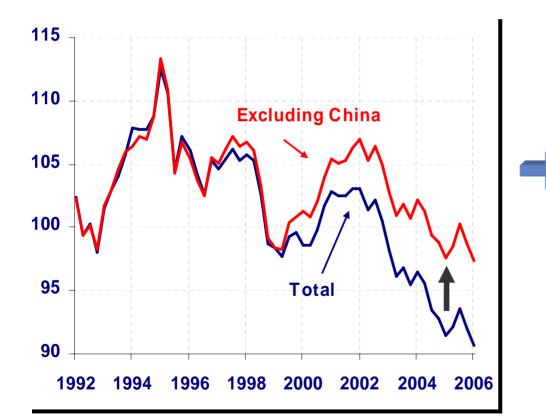


Source: Filippo di Mauro, Warwick McKibbin, Stephane Dées (ed.): Globalisation, Regionalism and Economic Interdependence, CUP (forthcoming).

China seems to explain losses in market share

Euro area export market shares

(In volumes; index 1992=100)



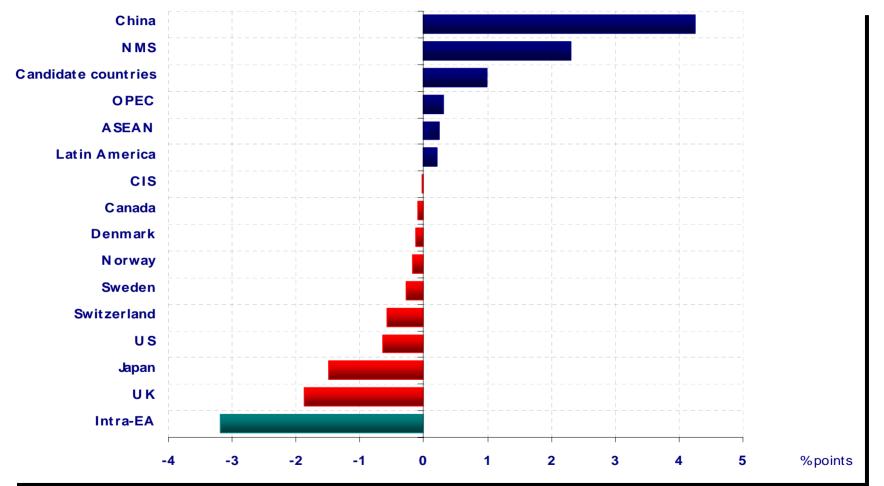
Taking world imports from China out of foreign demand explains part of the loss in euro area market share

Source: ECB computations.

Note: The last observation is for 2006 Q1.

... but extra - imports are displacing intra-EA imports

Change in EA manufacturing import shares by country of origin

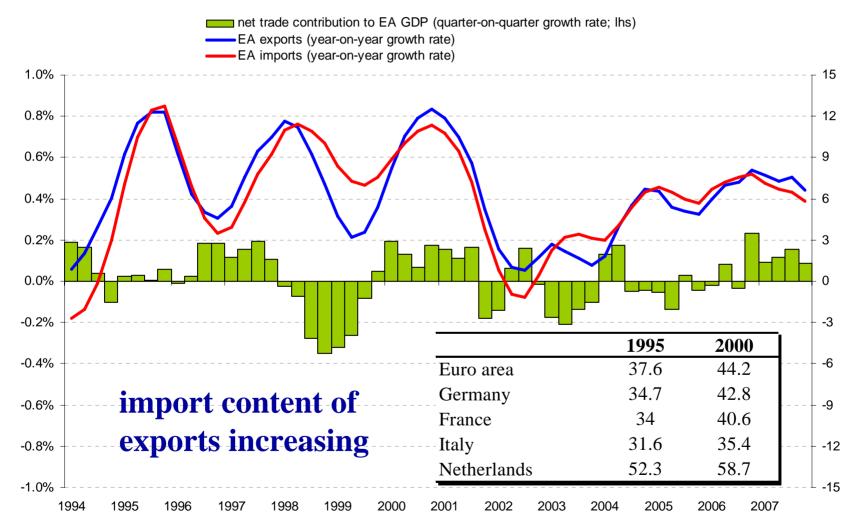


Source: Eurostat and ECB calculations.

Note: Percentage point change in import shares in total (intra+extra) euro area imports between 1995 and 2005.

Net trade contribution declining

Net trade contribution to EA real GDP (4-quarter moving average)

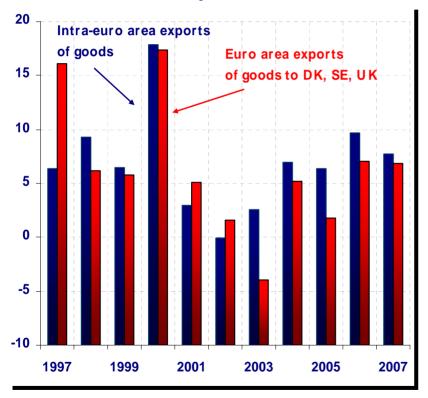


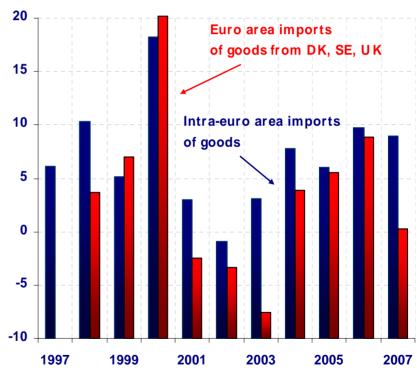
Trade among euro area countries has increased since 1998, faster than for EU not EA

Euro area trade with EU, 1996-2007

(values; year on year growth)

Exports





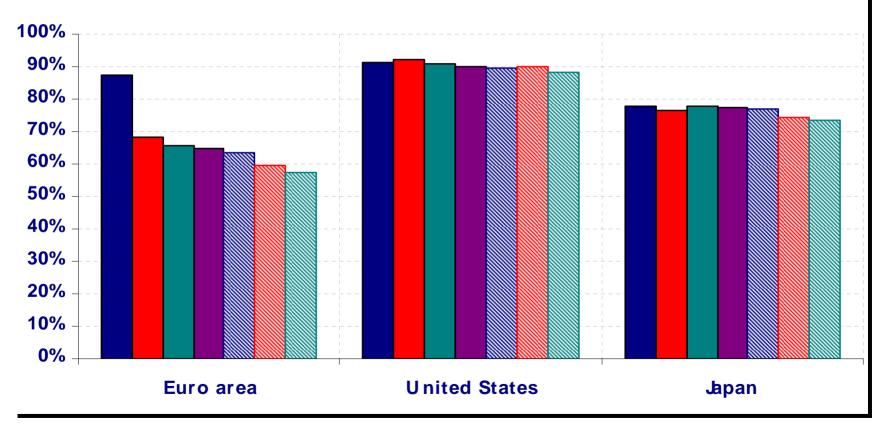
Imports

Sources: Eurostat and ECB calculations Notes: Estimates for 2007 are based on data for the first half of 2007.

Lower home bias in the EA

Home bias in bond portfolio assets, 1997-2006 (in %)

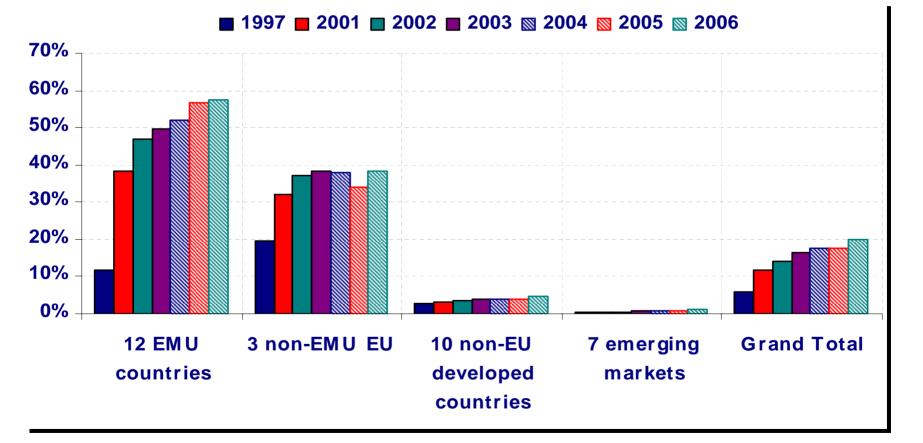
■ 1997 ■ 2001 ■ 2002 ■ 2003 ⊠ 2004 ⊠ 2005 ⊠ 2006



Sources: BIS, IMF, Thomson DataStream, ECB calculations.

Euro area asset holdings have increased with EMU

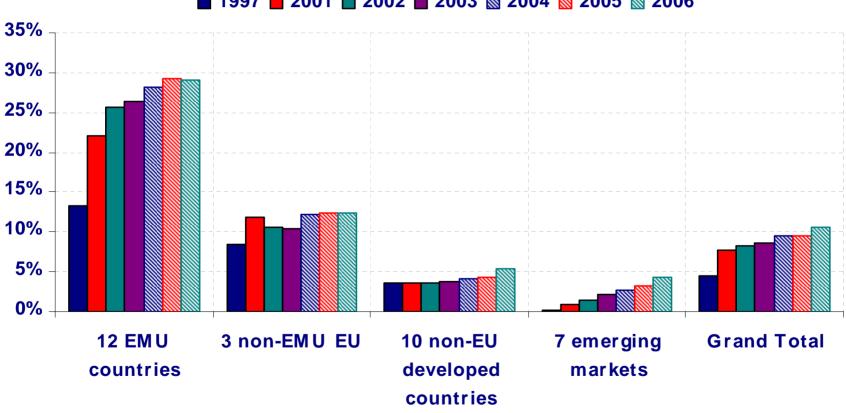
Share of euro area portfolio assets (bonds) (in %)



Sources: BIS, IMF, Thomson DataStream, ECB calculations.

Euro area asset holdings have increased with EMU

Share of euro area portfolio assets (equities) (in %)



■ 1997 ■ 2001 ■ 2002 ■ 2003 ⋈ 2004 ⋈ 2005 ⋈ 2006

Sources: BIS, IMF, Thomson DataStream, ECB calculations.

Conclusions

- The impact of shocks on the Euro Area is dependent on their origin and nature
- Regional integration impacts have been as expected, driving up intra-trade, favoring lower home bias and increasing holdings euro assets
- ... but impacts have been dampened in the case of trade by the strength of the globalisation forces (entrance of China)

The end