

## **ANALYTICAL SUMMARY**

Fernando ALONSO GUINEA and José Luis CENDEJAS BUENO  
“Budget Convergence and Economic Cycle in the European Union”  
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This paper analyzes the role of the business cycle in the convergence process of both deficit and debt ratios in the EMU. In assessing the effectiveness of institutional reforms to reach EMU's fiscal objectives, it is important to consider the relation between business cycle and the improvement of fiscal balances along the nineties. To analyse this relation, cyclical components in the GDP series and in the deficit and debt ratios are obtained and these series are jointly modelled. The located relation between business cycle and fiscal consolidation allow us to say that, in absence of severe and long term oriented fiscal adjustments, the first conditioning factor to make viable a fiscal stability program as SGP, is the generation of high and sustained growth rates.

José CAETANO and Aurora GALEGO  
“Trade Flows Among CEEC and EU Countries:  
What Are the Future Perspectives?”  
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In this paper we analyse the characteristics and evolution of the EU-CEEC trade in the last decade, giving particular attention to trade relations among the CEEC. We study the determinants of both total and sectoral trade flows and investigate the potential bilateral trade among all the countries. The analysis is based on the gravity model approach using panel data from 1993 to 2001. The results highlight the sectoral differences in the EU-CEEC trade developments. Furthermore, it is possible to conclude that there is still scope for growth on bilateral trade flows between some CEEC and some of the EU countries and especially among the new EU members.

Constantin CIUPAGEA and Pietro MONCADA-PATERNÒ-CASTELLO  
 “Industrial R&D Investment: A Comparative Analysis of the Top EU and non-EU Companies Based on the EU 2004 R&D Scoreboard”  
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This paper presents the main results from the first 2004 EU Industrial R&D Investment Scoreboard, which lists the top 500 EU companies and the top 500 non-EU companies ranked by their R&D investment. After a short description of the definition and objectives of the exercise, its content and main findings are shown together with results from other analyses performed within DG JRC – Seville, showing the impact of the degree of concentration at the company’s level on the overall industrial R&D stance. There seems to be a correlation between R&D intensity growth and net sales growth. Despite a competitive total amount of R&D investment, the average overall R&D intensity of the sampled European Union companies is much smaller than for their non-EU counterparts. This is related to a smaller proportion of output from sectors with high intrinsic R&D intensity, which is particularly noticeable in IT Hardware and Software and Computer Services. Although R&D investment amounts are comparable for the biggest firms, the share of R&D performers at the middle and the bottom of the EU-500 Scoreboard is much smaller in the EU than in the non-EU. The analysis indicates that national, regional and sectoral patterns deviate considerably from the overall picture of the EU. An entire section of the paper is dedicated to an inter-sector comparison of R&D-related indicators. The issue of concentration of R&D investment among top companies investing in research is investigated in more detail, in large companies, by sector of activity and by location. It is also proved that the sample of top R&D investing companies is statistically characterised by heteroscedasticity.

Judith CLIFTON, Francisco COMÍN and Daniel DÍAZ FUENTES  
 “Explaining Public Enterprise Privatisation in the EU: A European or British Policy?”  
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This article seeks to identify the reasons behind privatisation programmes undertaken by governments of the European Union (EU), particularly the EU-15. The privatisation of public enterprises was one of the most important economic and political reforms since the 1970s. This activity has attracted the attention of scholars and there now exists an ample bibliography on the topic. Despite the volume of studies conducted, there remains a lack of consensus on the reasons why governments implemented privatisation programmes at similar times in various countries. Three dominant explanatory models on EU privatisation are offered in the literature. Firstly, the “British paradigm” which assumes the ideological belief in market forces and private business played an essential role in the path towards a global programme inspired by the British

experience. Secondly, a “multiple logics” approach, which claims that the UK was an anomaly, not a model to emulate, since EU privatisation was diverse to the extent there are few, if any, common logics. Thirdly, a “European paradigm” which situates EU privatisation in the context of economic and political integration, and highlights the importance of European Commission directives when explaining the development of privatisation in the region. This article aims to evaluate these three explanatory models using comparative empirical data on EU privatisation by country and sector. It is found that integration requirements, particularly in telecommunications, transport and other public service networks, played a critical role in the motivation of governments to privatise. Europe thus is an important explanatory factor when explaining EU privatisation.

Joaquín FLORES PAREDES

“The Reform of the Common Agricultural Policy and the Doha Round”

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Developed countries have ignored the agreements reached at the GATT’s Uruguay Round. This has generated the reaction of developing countries, now better organized since the beginning of the Doha Round. Developing countries demand the effective reduction of agricultural subsidies, given that such practices have lowered international prices and therefore ruined many small producers in the South. In this context, the EU has been pushed to cut subsidies to agricultural production and exports. Nevertheless, the final impact of the new Common Agricultural Policy is yet unknown, since negotiations in the Doha Round respond, not only to the interests of member countries and the theoretical defense of world free trade, but also to the interests of transnational corporations. This paper explains how the latest reforms of ACP have responded to negotiations within GATT and the WTO, as well as their impact in the world agricultural market and in the agriculture of developing countries.

José Luis DE LA CRUZ and José Antonio NÚÑEZ MORA

“International Trade, Economic Growth, and Foreign Direct Investment: Causality Evidence in Mexico”

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This document investigates the existence of causality, in the Granger sense, and its direction among Real Gross Domestic Product, exports, imports and Foreign Direct Investment of the Mexican case. The analysis applies the methodology of cointegration developed by Liu, Burrige and Sinclair (2002) and the tests of structural changes for the vector of cointegration developed by Quintos (1993 with Phillips, 1997 and 1998). The statistical results show that there is a stable and causal relationship of the FDI towards the rest of the variables;

however in this case it is unidirectional. In this sense, there are benefits of FDI in Mexico, nevertheless this links can be triggered first by external factors, before the evolution of the national economy.

José CUESTA, Mariano GONZÁLEZ and José María LARRÚ  
 “¿Does Foreign Aid Reduce Inequality?”  
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Recent international calls for more effective foreign aid underscore the surprisingly little evidence on the redistributive impact of aid. Distribution in recipient countries is not even a qualifying criterion for donors when allocating aid. This paper addresses the fundamental question of whether current aid and economic growth trends will likely render substantive egalitarian benefits to the developing world. Using an ordered probit econometric model in a thirty developing country panel between 1995 and 1998, the paper finds that aid and economic growth affect recipient countries' inequality neither largely nor always in the same direction. Aid has typically lower impacts on the national distribution of incomes than economic growth. There are also important regional differences: the impacts of aid and economic growth are lowest in Latin America, the already most unequal region in the world. The new calls for more effective aid are absolutely justified: current strategies will unlikely improve inequality in the developing world.

Alfredo SÁNCHEZ DAZA and Manuel CASTILLO SOTO  
 “Latin America's Financial Globalization: The Failure of an Idealized International Insertion”  
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Through the analysis of net capital flows, both by regions and countries, this article examines Latin America's financial globalization during the last two decades. From the global perspective, such process incorporates developed countries and Latin America, in which the biggest economies of the region are the most involved. The international financial integration of the region has not occurred as it was drawn; the accomplished insertion is partial, broken, and conditioned. This integration is conditioned, first, by historical financial compromises (external debt and interests); and by an open exposure of local markets to the effects of international financial instability, due to the structural backwardness and institutional fragility of the region. This facts mostly explain the difficulties of the region towards its own economic growth.

Ángel VIÑAS

“European Union in a Quandary”

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There is no disagreement that the European Union suffers from continuous crises, which are systematically portrayed in the media. Curiously, however, the most relevant success in the Union’s recent history – its expansion to ten new members, almost all of them in Central and Eastern Europe, finalized on May 1<sup>st</sup>, 2004 – is often overlooked.

The reasons behind the crisis of the European project’s are widely contested. Politicians, analysts, academics, and of course governments disagree over what has brought the European Union to its current situation. According to some, the project has advanced ahead of the will of its citizens, who are held to be treated almost as subordinates subjects of an “Enlightened Despotism”. Others consider that the project is no longer clear and has become a victim of its own achievements.

Joaquín GUZMÁN CUEVAS

Three Ethical Views on Economics: Galbraith, Drucker and Ghoshal

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Three great economists have died recently: John K. Galbraith, Peter Drucker and Sumantra Ghoshal. This short paper considers not their technical and economic contributions, but rather their respective ethical approaches with regard to their concept of Economics as a science. Although the professional and intellectual profiles of the three economists are very different, an attempt is made to identify the common elements which may affect the future of the ethical grounds of Economics.