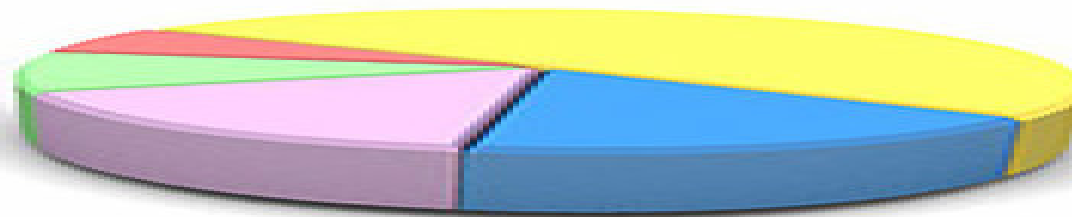


# THE EU AND GLOBAL TRADE

Looking for social responsibility and  
prosperity

# The EU and Global Trade

**The EU is the world's biggest trader: Global trade in goods (2006)**



|   |                |       |
|---|----------------|-------|
|    | European Union | 17.1% |
|    | United States  | 16.0% |
|    | China          | 9.6%  |
|   | Japan          | 6.6%  |
|  | Others         | 50.6% |

Source: Eurostat

# The size of the EU



- Market of 490 million – this will grow to 500 million + as Balkan states enter and by 80 million if Turkey joins in 2015
- World's biggest trader (20% of global imports and exports)
- EU (inc. Member States) provides nearly 1/2 the world's aid
- € is the 2nd currency in international financial markets
- It is concerned with Social Responsibility of Globalisation. Ideology, idealism mixed with realism – put bluntly China v what?

# Its use of soft power



- EU Enlargement – peaceful transformation of a continent
- Turkey – reforms at all levels
  
- \* Western Balkans – Commission aid combined with EU High and Special Representatives (Bosnia, Serbia, Macedonia)
  
- \* European Neighbourhood Policy (export achievements of enlargement, creating a “Ring of friends”)

# Supporting this idea



- \* Bilateral and regional agreements
  - Trade agreements; development assistance, institution-building and technical assistance, as well as for infrastructure and health and education programmes.
- \* Cooperation on economic, technical, scientific and research activities and environmental protection
- \* Framework for political dialogue.
- \* Human rights clause in all bilateral agreements
- \* Non-proliferation of WMD clause

# Some trends



Yet globalisation has to be seen in perspective. As a proportion of GDP, world trade reached a peak before the start of the First World War and it is only in the last decades that it has returned to these levels.

As a proportion of population, **international migration** is still less extensive than it was one hundred years ago.

# Other developments



- A distinctive feature of the present wave of globalisation is the intensity of (mostly, two way) capital flows, including foreign direct investment (FDI).

- \*Although for most OECD countries FDI still accounts for a relatively small proportion of overall investment, it is a key source of capital and know how for a number of developing countries, and has also been significant for some EU Member States such as Ireland.

- \*Asian investment in the richer countries also deserves to be highlighted.

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# Possible Social Consequences



\* In particular, rapid advances in technology, coupled with adjustments in some global markets have exerted pressures on the returns to unskilled labour in Europe, with the falling relative wages of unskilled workers contributing to a widening of **income inequalities**.

•Against this backdrop there have been growing fears that the European **social model**, rightly seen as a defining feature of the European Union and its Member States, can no longer be sustained and that it will have to be reined-back or even dismantled.

•Though this is no thought to be unlikely, even with Euro Zone problems, the changes being experienced by the growth in global trade will require social policy to respond to these challenges, notably in facilitating adjustment in **labour markets**.

**Education** is at the heart of adaptation, but **solidarity** cannot be neglected.

# Other policy considerations

- Placing greater weight on flexibility in labour markets and making social protection systems more responsive, are already receiving considerable attention.
- Others, such as dealing with the consequences of an **ageing population** are recognised as key challenges, but there is less evidence of coherence in policy responses.
- But does more attention need to be given to the **economically inactive** and the excluded, and not to losing sight of the solidarity function of social protection.
  - \* The ILO is concerned about the costs and benefits for richer and poorer nations and social groups, whilst the **governance challenges** raised by Joseph Stiglitz and others about **sharing out prosperity** at the global level also need to be considered
- Also what of geographically more dispersed **sub-contracting, sourcing, and division of labour** in production processes associated with globalisation. Can the
  - \* Returning directly to economics what of certain **structural factors**, for example the rise of intra-industry trade, and the growing salience of multinational enterprises (MNEs)

# Other considerations

- \* Today, however, the emerging markets account for a large and growing share of world manufacturing capacity.
- \* Even more strikingly, the flow of capital has become bi-directional.
- While in the 19th century Britain exported financial capital to the periphery, the largest economy of today, the United States, runs a current account deficit substantially financed by emerging-economy nations.
- Traditional economic theories of trade based on **comparative advantage** ( see **P Krugman**) struggle to explain actual developments in the world, particularly the rise of Asian economies, which created, rather than relied on existing, comparative advantages. China doubled its share of world trade in goods to 9% in the decade to 2005, not just by relying on cheap labour, but the EU has maintained its share, unlike the US and Japan. Germany came out of the recent recession earlier than most EU countries as it exports capital goods, especially to China.
- \* The current **geographic fragmentation of production processes** also has no precedent in history and, in today's world, countries **increasingly trade in tasks, rather than products**.
- \* **Capital markets are much more mature** today than at any time during the past expansions of trade and capital flows. Gross flows of capital **are much larger** than in the past, and they take many more forms. In particular the flows of foreign direct investment are **much larger relative to output** than at any time before.

# Continued Financial Integration

• **Financial integration** has been by far the most rapidly expanding field of globalisation. Both portfolio and direct investment have increased by a greater order of magnitude relative to GDP.

• For the 'old' EU Member States, volume indicators of international financial integration show a tenfold increase in the 35 years between 1970 and 2004.

• The stock of external assets and liabilities for the EU as a whole as a proportion of GDP rose from 59% of GDP in 1970, to over 550% in 2004, with a particularly strong expansion after 1995.

• As a result of more **the foreign influence on business has increased**, including a substantial increase in control by foreign owners through majority-owned foreign affiliates.

\* There has been a **considerable relocation of productive activities**, in both goods and services. This has resulted in a rapid expansion in **two-way trade flows between developed and developing economies**.

\* However, the EU has been among the winners, in particular in the field of business services, with, nevertheless, a substantial increase in the market share of India.

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# Other forms of integration

\* **“In sourcing”** of activities, that is, the expansion (notably of the export of business services and other high-value added service activities) in the world market for service industries have, as could be expected, mainly favoured the branches of activity relying on top-level high-skilled human resources and has, unavoidably, contributed to the rise **in the wedge between high- and low-skilled labour**.

\* However, there is an off-setting trend for certain **professional activities to be out-sourced** to countries such as India with lower cost, but well educated workers.

\* Most of the EU Member States either maintain the **relative size of their tax revenues** or even manage to increase it..

\* **Gini coefficients** have risen over the two decades from the mid-1980s from levels of around 20 (indicating low inequality) in Sweden and Finland to closer to 25, and have also increased from already fairly high levels in Italy and Greece. However, there is no (or only weak) evidence that this rise in income inequalities is attributable to Globalisation - recent studies and additional examination of available data suggest that the rise in **income inequalities is a phenomenon intimately associated with the emergence of the ‘knowledge society’** and which has resulted in an increase in the return on human capital, but also, as indicated above, to a widening of the gap between those with a high and those with only a basic endowment of knowledge and skills. It is also noteworthy that over the same period, there was a significant fall to around 30 in the Gini coefficients for Ireland and Spain, showing that the movement is not all one way.

# Other factors to be considered



- **Migration** is a challenge for the welfare state, not least because of popular perceptions that migrants take advantage of it and give little in return.

- \* **Longevity** is increasing and the predictability of the life cycle in the sense of a stable career path is reduced for a large number of citizens.

- \* There are increasing returns on **intellectual capital**, that is, on investment in education and knowledge. However, this emergence of the knowledge society entails **an increase in apparent income disparities** and – at least in some socio-economic contexts – a change in the patterns and strength of the **inclusive forces in society**.

# Looking to the future

- There will be **significant qualitative change in globalisation** can nevertheless be expected, as companies re-think their **value chains** and seek to reduce costs by ‘**unbundling**’ tasks, rather than shifting the entire production of products.
- The much enhanced scope for coordination of production afforded by ICT means that companies can more easily outsource or off-shore segments of the production process that were kept in-house in the past.
- **Such unbundling** will, make it more probable that groups of workers who have hitherto been insulated from globalisation will face new competition, but will equally give increased opportunities to the most qualified and adaptable workers in the EU.
- \* There is no empirical support for the proposition that globalisation is leading to a ‘race-to-the-bottom’ in social policy.
- \* Globalisation reinforces tendencies to diminish ‘local solidarity’, to pit one welfare system against another and to expose the individual to a higher degree of unpredictability and risk.
- \* So, what might emerge as EU policy in the coming years?

# Future EU policy in reaction to growing globalisation

- Strengthen education and training, especially amongst the lower-skilled
  - \* Foster more acceptable migration both in labour markets and within society
- Increase labour market adaptability and flexibility
- Reshape social protection and enhance both empowerment and endowment of the individuals
- Find new ways of managing personal and social risks
- **I wonder if some of these will ‘appear’ on the 22<sup>nd</sup> June?**