

RESISTING DEGLOBALISATION: THE CASE OF EUROPE

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Global trade and finance data indicates that the pre-2008 pace of economic globalisation has stalled or even reversed. The European Union has defied this trend, with trade flows and financial claims continuing to grow after the recovery from the 2008 global economic and financial crisis. Immigration, including intra-EU mobility, has also continued to increase.

Our analysis of public opinion in EU countries shows that support for globalisation, free trade and immigration, is on the rise. EU public opinion on these issues does not differ greatly from the rest of the world.

Our panel-model estimates for EU countries from 2009 to 2019 find a strong association between the unemployment rate and the prevailing view on whether globalisation is an opportunity for economic growth. A regression for 19 non-EU countries shows the unemployment rate is significantly associated with public support for trade. These findings suggest that cyclical economic factors partially drive views about globalisation. Our analysis suggests younger and better-educated people in the EU view globalisation more positively, as do those in better economic situations, those who feel politically included and those with a positive view of the EU. Increased support for globalisation among EU citizens might also have been boosted by policies to improve social fairness, and by some success in containing asylum-seeker pressure. However, the EU continues to have pressing social problems, concentrated in some member countries with weaker economic outlooks. With global and European economic growth slowing and the risk of a European recession increasing, unemployment tensions could re-emerge, which might reverse recent increases in support for globalisation.

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1 Introduction

Economic globalisation is at a crossroads. In the last decade, trade and financial integration advanced much less than before the 2007-2009 global financial and economic crisis. Some indicators even show there have been setbacks. Protectionist tendencies are on the rise and global governance faces major challenges. The United Kingdom's vote to leave the European Union, the election of Donald Trump as the president of the United States and the popularity of the right-wing political parties in France, Italy and elsewhere are some noticeable examples suggesting people's rising discontent with the *status quo*. The preceding rapid pace of globalisation might have contributed to this discontent.

A notable sign of deglobalisation is the decline in the global trade to global GDP ratio since 2010. Several alternative explanations have been proposed in the literature to explain this decline. Some of these explanations are more cyclical in nature, while others are more structural, as nicely summarised by Hoekman (2015). The very rapid growth of the trade-to-GDP ratio in the 1990s and the first half of 2000s was to a great extent driven by the re-integration of China and central and eastern European countries into the world economy, and by the rapid growth of global value chain (GVC) participation and associated foreign direct investment (FDI) flows. These developments were bound to level off as reintegration advances and GVCs reach a high level of dispersion. China's deliberate rebalancing policy from an export-led to domestic demand-led growth model also points to reductions in the global trade-to-GDP ratio.

Cyclical factors in the aftermath of the 2007-2009 global financial and economic crisis and the subsequent euro-area crisis, have also likely played a role. Weak consumption and investment demand, especially when households and firms suffer from over-indebtedness, reduce demand for imported materials. Boz *et al* (2015) and Ollivaud and Schwellnus (2015) argued that recent global trade dynamics are largely driven by cyclical factors.

A structural reason, which reinforces the impact of cyclical factors, is the changed composition of global trade, with the share of manufactured products increasing to over 80 percent of total trade (Irwin, 2015; Gangnes *et al*, 2015). A significant component of manufacturing trade is investment and other durable goods. Trade in durable goods tends to be more sensitive than trade in non-durables to income shocks, and the purchase of durables can be postponed when there is elevated uncertainty about expected consumer demand, a situation which likely characterises several advanced economies.

The rise in protectionism might have also contributed to the global trade slowdown. Evenett and Johannes (2015) argued that explicit border protection measures alongside state-provided export incentives through subsidies or the tax system (despite World Trade Organisation rules on subsidies) have negatively impacted global trade, and in particular exports from the least-developed countries.

The US-China trade dispute is another factor impacting global trade. Detailed calculations reported by Bown (2019) show that the average US tariff on imports from China will increase from 3 percent in early 2018 to 27 percent by the end of 2019, while Chinese tariffs on US goods will rise from 8 percent to 25 percent over the same period. At the same time, China has cut its tariffs on non-US exporters from

8 percent in early 2018 to a level of 6.7 percent at time of writing. The January 2020 Phase 1 trade deal between China and the US left most tariffs unchanged¹.

The major increase in US-China bilateral tariffs has likely had a negative impact on trade between the two countries. It also likely had repercussions for other countries because of disruptions to global supply chains. Another negative impact on other countries could come from slower global growth, should the US-China trade dispute lead to a slow-down in these two large economies with adverse spillover effects onto other countries². In its October 2019 *World Economic Outlook* (WEO), the IMF (2019) estimated that US-China trade tension will cumulatively reduce the level of global GDP by 0.8 percent by 2020. This is one reason why the IMF (2019) cut its global growth estimate for 2019 to 3 percent, which is the slowest pace since the global financial crisis. While the January 2020 WEO update concluded that some risks have partially receded with the announcement of a US-China Phase I trade deal and lower likelihood of a no-deal Brexit³, global growth has been revised downward again for both 2020 and 2021. This latest downward revision primarily reflects negative surprises for economic activity in a few emerging market economies. But 2020 growth forecasts for advanced economies, including the United States and the euro area, have also been cut (IMF, 2020). The IMF argues that subdued global growth is a consequence of rising trade barriers, elevated uncertainty surrounding trade and geopolitics, idiosyncratic factors causing macroeconomic strain in several emerging market economies, and structural factors, including low productivity growth and aging demographics in advanced economies.

Public opinion about globalisation can be influenced by social developments. As O'Rourke (2018) noted, globalisation creates winners and losers. Based on panel data estimates for 149 countries from 1970 to 2010, Furceri and Loungani (2018) concluded that episodes of capital account liberalisation, which boost financial globalisation, increase income inequality. In turn, Darvas (2016) concluded that income inequality boosted the vote for Brexit in the UK's EU membership referendum in June 2016. Darvas and Efstathiou (2016) concluded that income inequality boosted the vote for Donald Trump in the 2016 US presentational election. Autor *et al* (2017) found strong evidence that congressional districts exposed to larger increases in import penetration disproportionately removed moderate representatives from office in the 2000s, and in the 2016 presidential election, counties with greater trade exposure shifted towards Donald Trump.

These results suggest that globalisation losers might vote against the status quo and instead support populist politicians who advocate anti-globalisation measures. Rodrick (2018) calculated that support for populist parties, in those 19 European and Latin American countries where there is at least one populist party, ran at only about two percent in the 1970s, but their share of the vote reached almost 25 percent from 2011 to 2015. Even if populist parties do not come to power, their increased popularity influences the actions of the mainstream parties in power.

Of course, it is not only economic factors that influence support for populist parties and the backlash against globalisation. Other factors also play a role, including xenophobia and a fear of losing national

¹ According to the deal, the United States will keep a 25 percent tariff rate on \$250 billion of Chinese goods, but will cut the tariff rate from 15 percent to 7.5 percent on \$120 billion of Chinese goods. Tariffs that were planned to be introduced on \$160 billion of Chinese goods have been suspended. See Reuters (2020).

² Trade diversion away from bilateral US-China trade could benefit the rest of the world, but this impact is likely small compared to the negative impacts from supply chain disruption and slower global growth.

³ Since the publication of the IMF World Economic Outlook Update on 9 January 2020, the EU-UK withdrawal agreement has been ratified and thereby the UK will exit the EU on the basis of this agreement on 31 January 2020.

cultural identity, especially after a large wave of immigration, and in the context of technological changes and their impacts on labour markets, and even the fear of terrorism.

In this paper we analyse deglobalisation tendencies from the perspective of the European Union. Globalisation and deglobalisation have many aspects. Similarly to O'Rourke (2019), we focused on three that have the most direct economic impacts: the (dis-)integration of international markets for goods, capital and labour. We start in section 2 with an analysis of hard data and conclude that trade, finance and labour movements have kept up much better in Europe than elsewhere. Our analysis of public opinion in section 3 highlights that support for globalisation, free trade and even immigration is on the rise in Europe, while on average public opinion in the EU does not differ much from the rest of the world. There are major differences, though, in public opinion in different EU and non-EU countries. We also analyse the socio-economic characteristics of the supporters and opponents of European globalisation. In section 4, we discuss options to contain the negative fall-out from globalisation.

2 What does hard data say about deglobalisation?

How much have movements of goods, capital and people changed in recent years compared to developments in previous decades? And how much does the EU differ from the rest of the world in terms of the tendency towards deglobalisation?

2.1 Goods and services

The most often cited deglobalisation indicator is world trade as a share of world GDP. While in earlier years growth in trade was much faster than the growth of GDP, in more recent years, trade growth has slowed. Figure 1 (Panel A) shows that world trade as a share of world GDP increased rapidly from the mid-1980s up to 2007, a clear indication of increased globalisation. There was a sudden drop in the ratio during the global crisis, and, while the recovery got underway quickly, world trade (as a share of GDP) has not regained its pre-crisis level. After 2011, the world trade ratio started to fall again and, by 2016, reached the lows observed during the global crisis. While there was some recovery in 2017 and 2018, the current level of world trade/GDP is still well below its pre-crisis peak. Therefore, those who talk about deglobalisation have a point when looking at world trade data.

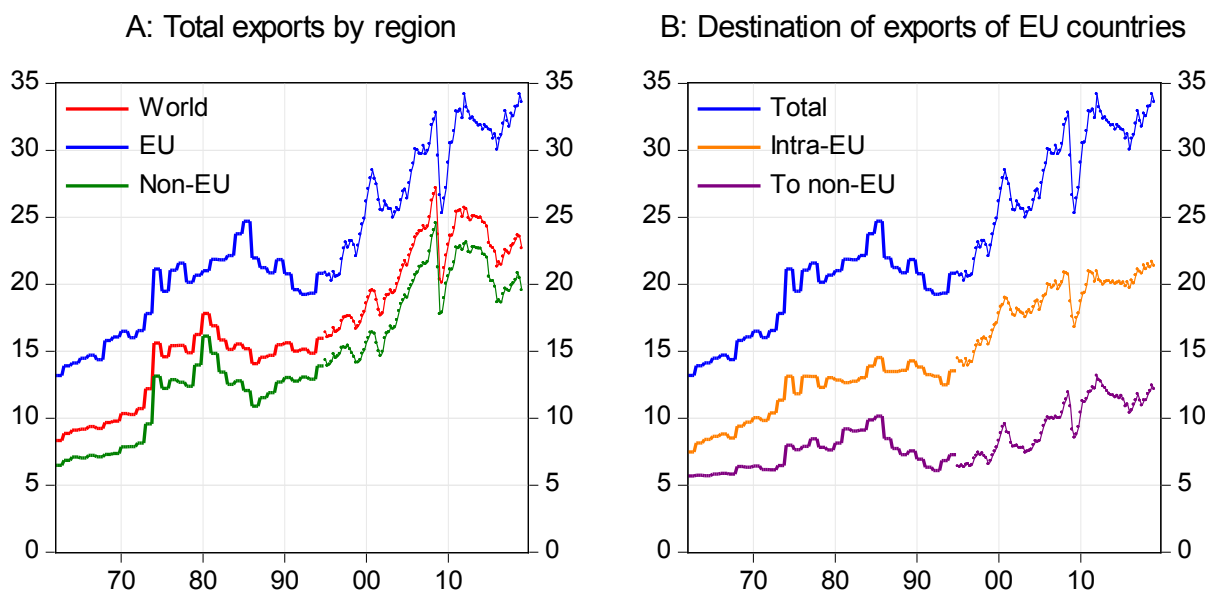
However, developments were different for EU countries (Figure 1, Panel B). Total trade (taking into account both intra-EU and extra-EU trade) as a share of GDP is higher in 2019 than it was in 2008, suggesting that the EU has defied trade deglobalisation tendencies. Our calculations based on bilateral trade data show that intra-EU trade/GDP continued to grow after the recovery from the global and European financial and economic crises, while extra-EU trade as a share of GDP fell from 2012 to 2016, but increased afterwards, leading to a level in 2109Q1 that was higher than before the crisis, but lower than in 2012.

Therefore, the fall in the global trade/GDP ratio originates from developments in non-EU countries. Panel A of Figure 1 confirms this. The exports of non-EU countries as a share of their GDP was much lower in 2019 than in 2007.

From the perspective of value chains, exports of intermediate goods are crucially important. We separated the intermediate goods components from total exports (Figure 2; note that intermediate goods data is available only at annual frequency and up to 2017). The picture is similar to total exports: while at the global level, intermediate goods exports as a share of GDP has fallen in the past

decade, this fall results from developments in non-EU countries. In EU countries, exports of intermediate goods, including to non-EU countries, have continued to grow as a share of GDP (since the global crisis). European participation in global value chains has thus not been significantly affected by deglobalisation tendencies.

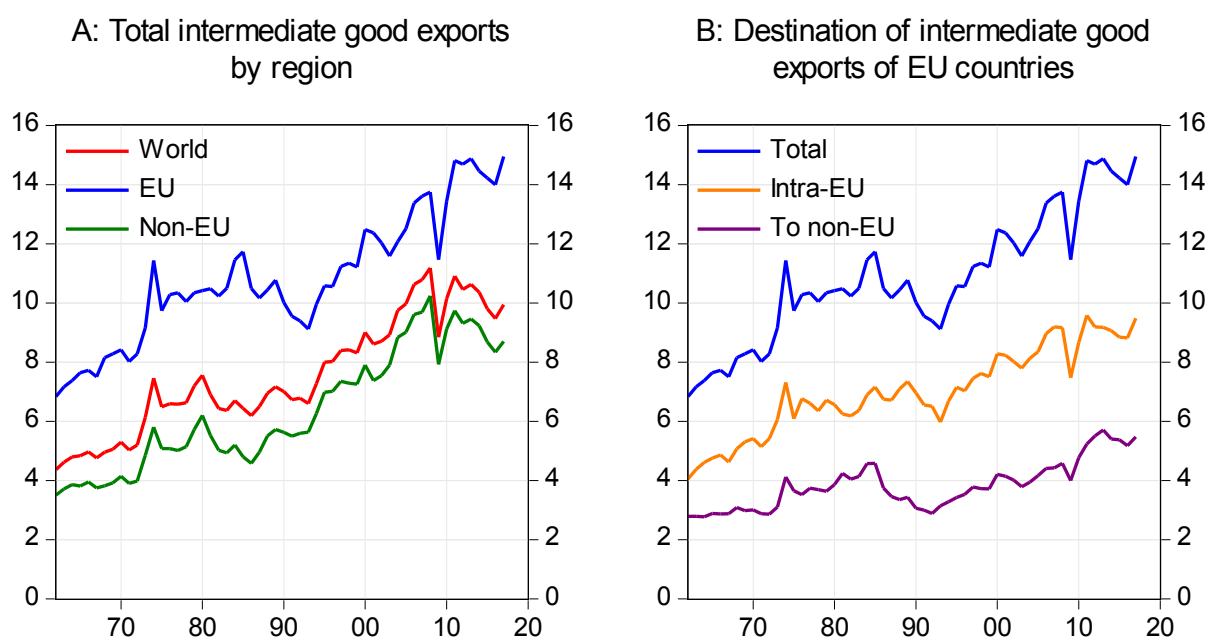
Figure 1: Exports as a share of GDP, 1962-2019Q1



Source: Bruegel using annual bilateral trade data from The Growth Lab at Harvard University, 2019, 'International Trade Data (SITC, Rev. 2)', <https://doi.org/10.7910/DVN/H8SFD2>, quarterly bilateral trade data from the IMF's Direction of Trade Statistics (<http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85>), annual GDP data from the World Bank 'World Development Indicators' database (<https://datacatalog.worldbank.org/dataset/world-development-indicators>) and quarterly GDP data from World Bank 'Global Economic Monitor database' (<https://datacatalog.worldbank.org/dataset/global-economic-monitor>).

Note: The blue 'Total' line in Panel B is the same as the blue 'EU' line in Panel A. Annual data for 1962-1994 (reported as the same annual value for each quarter) and quarterly data for 1995-2019. At most 236 countries are considered for annual data, and 199 countries are considered for the quarterly data (pre-1995Q1 quarterly data includes many missing values). World exports are divided by world GDP, exports of EU countries are divided by EU GDP, exports of non-EU countries are divided by the GDP of non-EU countries.

Figure 2: Exports of intermediate goods as a share of GDP, 1962-2017



Source/note: see Figure 1.

2.2 Capital

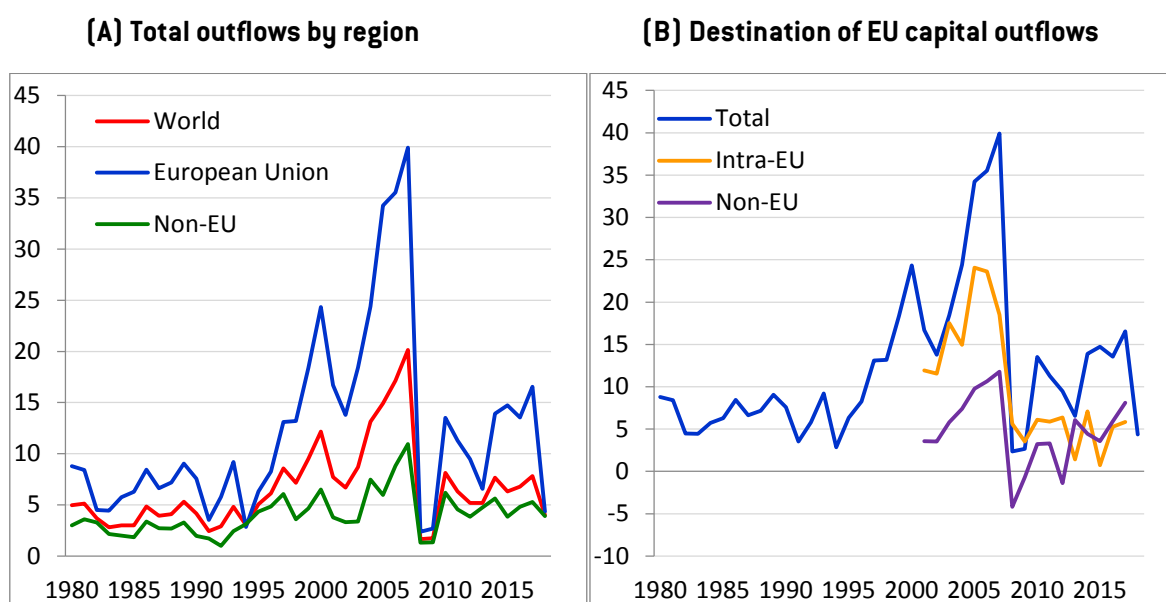
While the volume of capital flows as a share of GDP⁴ was relatively stable in the 1980s, an extraordinary increase started in the mid-1990s, reflecting the accelerated pace of global financial integration. Global gross capital outflows⁵ increased from less than five percent of world GDP to 20 percent by 2007⁶. Figure 3 (Panel A) shows that most of the increase came from EU countries, where the peak value in 2007 was over 40 percent of EU GDP, but the increase of outflows from non-EU countries also doubled to 10 percent of the GDP of this group of countries. As a result, global gross foreign assets as a share of global GDP increased from 35 percent of GDP in 1980 to about 200 percent by 2007 (Figure 4).

⁴ We scaled capital flows and stocks with GDP, which is a standard procedure. An alternative scaling variable would be total domestic financial assets, which could capture the increasing role of finance in the domestic economy too. Unfortunately, data on total domestic financial assets is not available for our sample of 200 countries for 1980-2018.

⁵ Capital flows are defined as cross-border financial transactions recorded in a country's external financial accounts, by which residents of a country acquire (or dispose of) foreign assets. Similarly to exports and imports of goods, capital flows and the consequent build-up of foreign claims can be viewed from the perspective of the source country (outflows and assets) and the perspective of the receiving country (inflows and liabilities). At the global level, outflows and inflows, and assets and liabilities, must be equal, but not at regional level, such as in the EU. We focus on outflows and foreign assets. We report outflows with a positive sign when residents of a country purchase assets of non-residents. When residents of the country sell earlier accumulated foreign assets and bring the proceeds home, the sign of outflow is negative. The change in gross foreign assets can result from new transactions (ie capital outflows, either with positive or negative signs) and valuation changes of assets (which can also be positive or negative).

⁶ We note that capital flows data is missing for several countries. Therefore, unfortunately, there are compositional changes in the group of countries considered: we consider all countries for which data is available in a particular year both for capital flows and for calculating global GDP. Thus, our terms 'global capital flows' and 'world GDP' are literally incorrect, because we only consider that subset of countries for which data is available. Since financially more-open countries started to report capital flow data earlier, there could be an upward bias in the capital flows/GDP ratios we report, especially for the 1980s. See the note to Figure 4, which describes data coverage.

Figure 3: Gross capital outflows (percent of GDP), 1980 – 2018

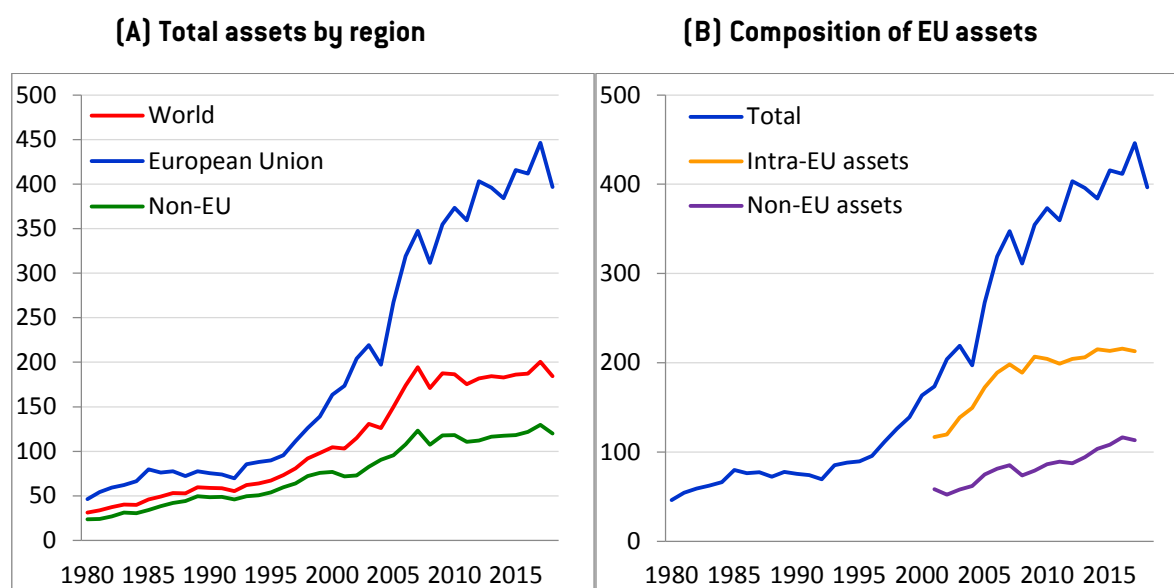


Source: Bruegel based on IMF Balance of Payments Statistics released in October 2005 (capital flows data in 1980-2004), latest data released for the IMF International Financial Statistics database (capital flows data from 2005 to 2018), the European Commission's Finflows database (bilateral capital flows and stocks; <https://finflows.jrc.ec.europa.eu/>), October 2019 release of the IMF World Economic Outlook (GDP in US dollars; <https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx>), and Bloomberg (EUR/USD exchange rate).

Note: As regards total flows, the 2005 dataset corresponds to the fifth edition of the IMF's Balance of Payments Manual (BPM5), while the latest dataset corresponds to the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). The BPM6 data had more gaps for the pre-2005 period than the BPM5 data. Capital flows/foreign assets data for each group is divided by the GDP of the group, e.g. EU capital flows are divided by the combined GDP of EU countries, while non-EU capital flows are divided by the combined GDP of non-EU countries. The country composition is variable: for each year only those countries are considered for which data is available, both for capital flows/foreign assets and GDP. The number of countries considered and their share in world GDP are: 13 and 59% in 1980, 19 and 69% in 1985, 28 and 77% in 1990, 44 and 79% in 1995, 72 and 81% in 2000, 117 and 94% in 2005, 140 and 95% in 2010, 156 and 96% in 2015, and 103 and 91% in 2018.

Intra-EU and non-EU destinations of EU capital flows and asset holdings are calculated from Finflows, which is the joint database of DG-ECFIN and DG-JRC of the European Commission. It follows BPM6. Finflows aims to resolve the inconsistency between countries' declarations (eg German claims on France, as reported by Germany, might not be the same as French liabilities owed to Germany, as reported by France). Since Finflows does not include all countries of the world, the sum of flows to other EU countries and non-EU countries do not add up to the value of total flows (which is taken from the IMF sources listed above). An erroneous 2001 data point (capital outflow from France to the Netherlands Antilles) was set to zero.

Figure 4: Foreign assets (percent of GDP), 1980 – 2018



Source/note: see Figure 3.

The global crisis led to withdrawal of earlier investments (negative gross capital outflows) in 2008 and 2009, but positive outflows resumed in 2010, though at a much lower level. Analysis of the composition of capital flows shows that mostly so-called ‘other investments’ (which mainly include cross-border loans) declined, reflecting banking weaknesses. Portfolio investments also declined somewhat, while foreign direct investment held up the best. Global gross foreign assets as a share of GDP remained close to 200 percent, signalling that the pre-crisis rapid pace of global financial integration has stalled. Again, from this perspective, those who talk about deglobalisation have a point – at least in relation to cross-border ‘other investment’ (ie loans), since the stock of such loans as a share of global GDP declined from 60 percent in 2007 to 44 percent in 2018. However, the stock of FDI assets increased from 47 percent of world GDP in 2008 to 59 percent in 2018.

The picture is again different when we look separately at EU and non-EU countries. Financial integration advanced at a much faster pace in EU countries, with gross foreign assets of EU countries (held in other EU countries and in non-EU countries) increasing to 350 percent of GDP by 2007. The temporary setback in 2008 was short-lived and foreign assets as a share of GDP continued to grow, though at a slower pace than in the pre-crisis period. However, foreign assets as a share of GDP increased to 123 percent of GDP in non-EU countries, a much lower value than for the EU. Moreover, the ratio was almost exactly the same, 120 percent, in 2017, suggesting stalling financial integration. Again, developments were different for different asset categories: the stock of FDI assets as a share of GDP increased both in EU and non-EU countries, as did portfolio equity assets, while the stock of cross-border loans declined in both groups (see the Annex).

The EU/non-EU division so far has considered the source of capital flows, but not the destination. It is also interesting to check where the capital is flowing to. For example, do EU countries invest primarily in other EU countries or in the rest of the world?

In order to analyse the intra-EU and extra-EU components of capital flows, we used the European Commission’s bilateral Finflows database. For intra-EU flows, we calculated the sum of all bilateral flows (that is, from each EU country to each other EU country) and divided it by EU GDP. The drawback

of this is that the bilateral dataset is not complete, and thus the sum of flows to other EU countries and non-EU countries does not add up to the value of total flows.

Panel B of Figure 3 shows that in the pre-crisis period, intra-EU capital flows were much greater than capital flows from EU to non-EU countries. However, from 2013, the situation reversed, which is also reflected in the development of foreign assets (Figure 4, Panel B): while intra-EU gross foreign assets as a share of GDP show only a minor increase, claims of EU residents on non-EU countries increased at a faster pace (though from a lower level).

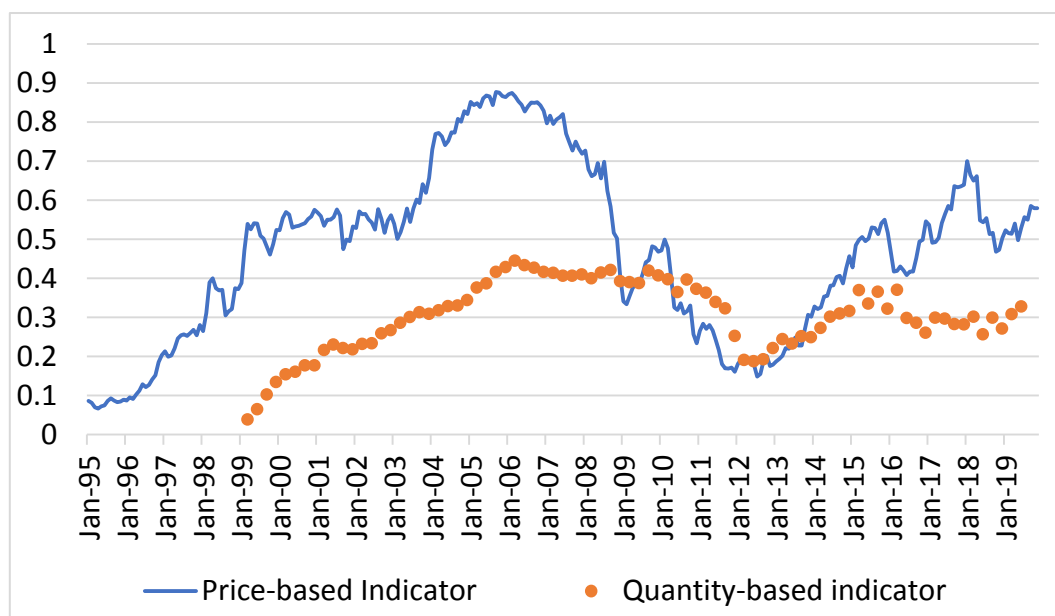
Overall, while the increase in the foreign assets/GDP ratio slowed down in the EU after 2007, from a very rapid increase in the pre-crisis period, there was continued growth both in the intra-EU and extra-EU components. The EU was impacted much less by deglobalisation tendencies than non-EU countries, where the foreign assets/GDP ratio even slightly declined from 2007 to 2018.

A more detailed picture of euro-area financial integration can be obtained by using the European Central Bank's financial integration indicators, which consider several dozen aspects of financial integration in the euro area (ECB, 2018; Hoffmann *et al*, 2019). Unfortunately, these indicators are not available outside the euro area. There are two composite indicators: the price-based indicator relies on measures of cross-country asset return dispersion (eg the cross-country standard deviation of certain interest rates), while the quantity-based composite indicator aggregates data on cross-border holdings for different asset classes (eg bonds or equities) across different sectors.

Developments in both composite indicators suggest that euro-area countries became gradually more financially integrated after the introduction of the euro in 1999 (Figure 5). This trend strongly reversed with the onset of the financial crisis in 2007. Decisive policy interventions in 2012 and thereafter helped stabilise financial markets and spur a gradual recovery in financial integration, though the level in 2019 was still somewhat below the levels observed in 2007.

Hoffmann *et al* (2019) also found, in a growth regression framework, that higher financial integration tends to be associated with an increase in *per-capita* real GDP growth in euro-area countries.

Figure 5: The ECB's euro-area financial integration composite indicators, January 1995 – November 2019



Source: European Central Bank, https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/financial_integration/html/index.en.html.

2.3 People

It is difficult to obtain global statistics on immigration and therefore we report data only on immigration into European Union countries, including mobility between EU countries. We isolate three categories of immigrants according to citizenship: (1) home-country citizens, or ‘return migration’ (eg German emigrants returning to Germany from France or from the United States), (2) other EU citizens (eg French citizens emigrating to Germany), which is called intra-EU mobility if the emigrants moved from an EU country, and (3) non-EU citizens. We carried out this classification for 27 EU countries (excluding Bulgaria but including the UK) and then summed-up the country-specific values to the EU level.

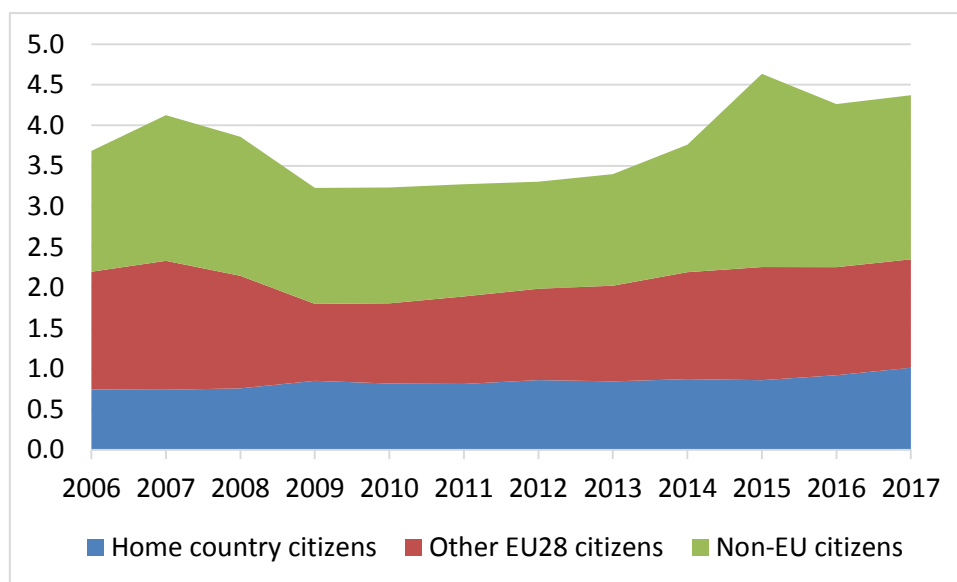
After the global financial crisis intensified and most advanced countries entered a recession, immigration into EU countries started to fall significantly, from 4.1 million people (or 0.84 percent of population) in 2007 to 3.2 million (or 0.65 percent of population) in 2009 (Figure 6). This fall resulted from the reduction in immigration from non-EU countries and from other EU countries, while return migration has in fact increased.

Almost two-thirds of the total reduction in EU immigration from 2007 to 2009 was connected to Spain, which saw immigration dropping from almost a million people (or 2.15 percent of population) in 2007 to below 400,000 (or 0.85 percent of population) in 2009, and even lower afterwards. Emigration from Spain also increased between 2007 and 2009, so the reduction in net immigration was even larger than the reduction in gross immigration. Spain, along with Ireland, experienced particularly large immigration inflows in the pre-crisis period, to satisfy labour demand arising because of the housing and credit booms (Ahearne *et al*, 2008). The pre-crisis economic models of Spain and Ireland were unsustainable, and therefore reduced immigration was inevitable.

Immigration into the EU started to increase after 2012 and peaked in 2015, the year when the EU received more than 1.2 million new asylum seekers. Mobility within the EU also re-started its increase.

Nevertheless, intra-EU mobility, which is primarily reflected in the movement of EU citizens to other EU countries, remains relatively low. In 2017 1.34 million EU citizens moved to another EU country, which is just 0.26 percent of total EU population⁷.

Figure 6: Immigration into/within the European Union countries, million people, 2006-2017



Source: Bruegel based on Eurostat's 'Immigration by age group, sex and citizenship [migr_imm1ctz]' dataset.

Note: 27 EU members, except Bulgaria but including the UK (which was an EU country in the sample period), are considered as receiving countries (but Bulgarians emigrating to other EU countries are included). Some missing data especially from 2006-2008 is approximated.

To sum up, hard evidence on deglobalisation, global trade and finance data does indicate that the rapid pre-2008 pace of globalisation has at least stalled, or has even gone into reverse. But Europe defies this trend, with both trade and financial claims, especially within the EU, continuing to grow after the recovery from the global economic and financial crisis. Immigration has also continued to grow since the crisis-induced declines.

⁷ It would be interesting to study the question whether mobility of non-EU citizens from one EU country to another EU country is greater than that of EU citizens. If so, labour mobility can play a stronger role in adjusting to economic shocks than what the analysis of the mobility of EU citizens suggests (with mobility of EU citizens relatively low). Unfortunately, Eurostat does not provide immigration data tabulated according to both citizenship and previous residence. Only data on immigration by citizenship (without discriminating by previous residence) and data on immigration by previous residence (without discriminating by citizenship) is available. We therefore leave this question for further research.

3 Public opinion

Valuable information about public opinion can be obtained from the PEW *Global Attitudes Survey* and the European Union's Eurobarometer surveys⁸.

The PEW *Global Attitudes Survey* is conducted in various countries at irregular intervals. It does not include a direct question on globalisation, but includes several questions on its three main manifestations: trade, investment by foreigners and immigration. There is only one question on trade which was asked in many countries throughout a long period, but there are many others asked in only a few years but in many countries.

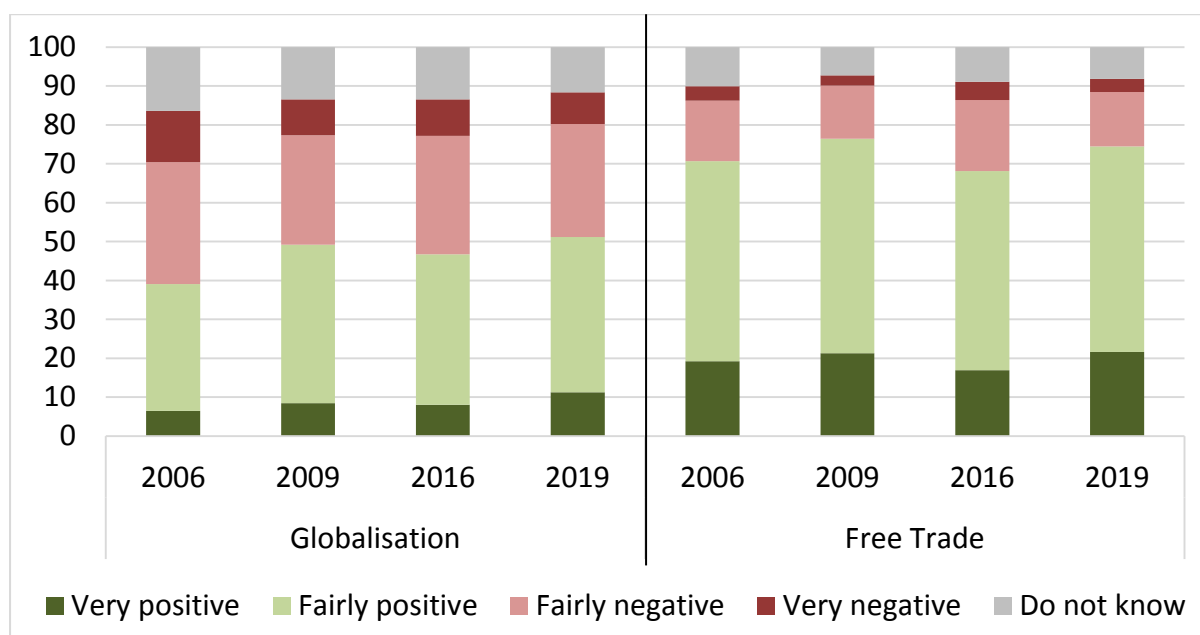
The standard Eurobarometer survey involves approximately 1000 face-to-face interviews per EU country, with the results published twice per year. Most, but not all, questions are repeated in each round of the survey. A question about attitudes towards globalisation has been asked since 2016, and before that, was asked in 2006 and 2009. Unfortunately it was not asked from 2010 to 2015, so for this period we cannot track changes in public attitudes towards globalisation (Figure 7). The same applies to attitudes towards free trade. However, the good news is that a question about the impact of globalisation on economic growth has formed part of each standard survey since May 2009 and therefore we can analyse the changes in responses to this (Figure 8). Questions are also asked about immigration, another phenomenon related to globalisation.

3.1 Globalisation

Figure 7 shows that Europeans have an increasingly positive view of globalisation and even more so of free trade. In 2006, 39.1 percent of citizens had a 'very positive' or 'fairly positive' view of globalisation, while 44.6 percent had 'very negative' or 'fairly negative' view and 16.4 percent did not answer. Thus, the share of respondents with a positive view among those who answered this question was 46.7 percent. The share of people with positive views about globalisation had increased somewhat by 2009, but then fell somewhat by 2016 and has increased again since, despite all the talk of deglobalisation. In 2019, 51.2 percent of all respondents, or 58 percent of those who answered this question, had a positive view of globalisation – a larger share than in any previous survey.

⁸ Concerns have been raised about the reliability of Eurobarometer surveys because of their low response rates; see Zalán (2019). PEW survey response rates in telephone surveys have also declined; see Kennedy and Hartig (2019).

Figure 7: EU public attitude toward globalisation and free trade, 2006-19

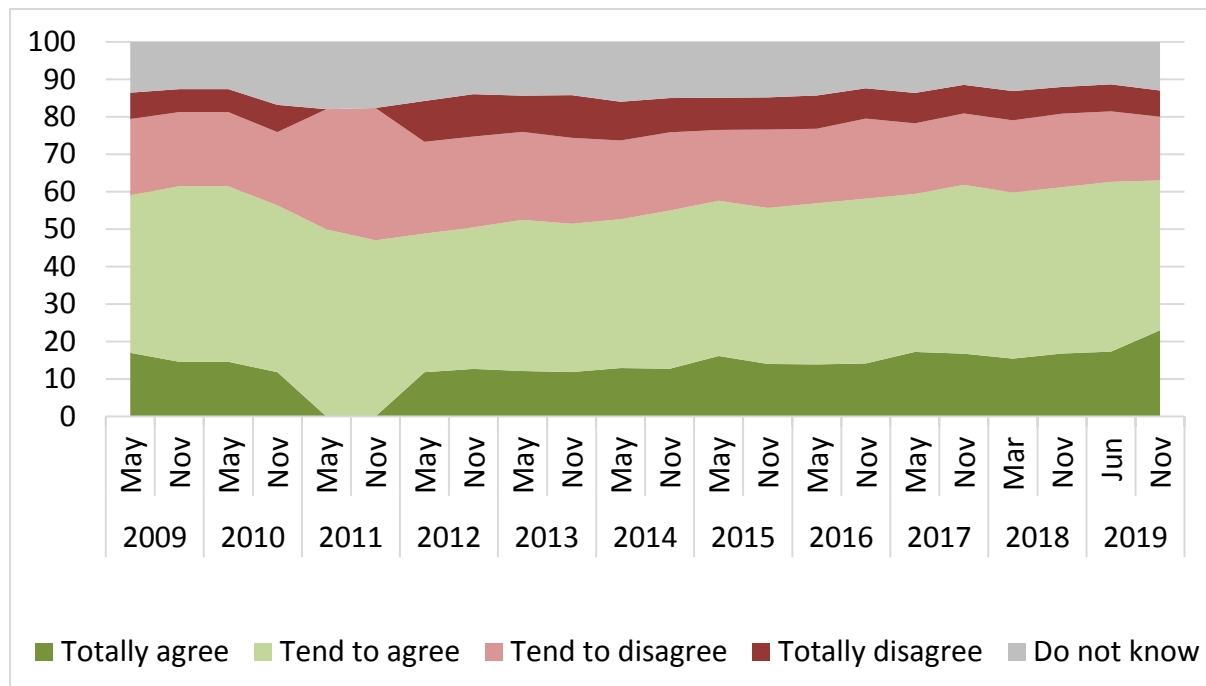


Source: Eurobarometer Standard Surveys (<https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm>).

Note: Values refer to the 27 members of the EU in 2009-2012 and 28 members in 2013-2019. The following question is asked: “Could you please tell me for each of the following, whether the term brings to mind something very positive, fairly positive, fairly negative or very negative? - Globalisation”. The same question was asked for “Free trade”.

While the Eurobarometer question on the general view of globalisation was not asked between 2010 and 2015, a specific question on the impact of globalisation on economic growth has been asked in each survey since 2009 (Figure 8). A comparison between Figures 7 and 8 shows that people have different views about ‘globalisation’ in general and about ‘globalisation as an opportunity for economic growth’. Support for the latter was much higher when both questions were asked, that is, in 2009, 2016 and 2019. For example, in November 2019, 63 percent of total respondents (or 72.4 percent of those who answered the question) totally agreed or tended to agree that globalisation is an opportunity for economic growth, well above the 51.2 percent of all respondents (or 58.0 percent of those who answered that question) who had very or fairly positive views of globalisation.

Figure 8: EU public opinion on whether globalisation is an opportunity for economic growth, percent of respondents, 2009-19



Source: Eurobarometer Standard Surveys (<https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm>). Note: Values refer to the 27 members of the EU in 2009-2012 and 28 members in 2013-2019. The following question is asked: “For each of the following statements, please tell me whether you totally agree, tend to agree, tend to disagree or totally disagree. - Globalisation is an opportunity for economic growth”. In 2011, only two answers were possible (“tend to agree” and “tend to not agree”), while in other years “totally agree” and “totally disagree” were also among the possible answers.

Figure 8 suggests an interesting dynamic: the positive view of globalisation as an opportunity for economic growth started to decline after 2009 and then began to gradually recover in 2012. As noted by Batsaikhan and Darvas (2015), the fall coincided with the most difficult years of the euro crisis, when the euro area entered a second recession and unemployment increased, from 2010 to 2012. As a gradual economic recovery built after 2012, more and more people agreed with the view that globalisation is good for growth.

In order to test the hypothesis that the cyclical economic situation correlates with views on globalisation, we ran the following panel regression:

$$p_{i,t} = \alpha + \mu_i + \tau_t + \beta u_{i,t} + \varepsilon_{i,t}$$

where $p_{t,i}$ denotes the share of positive views on ‘globalisation is an opportunity for economic growth’ (the combined share of ‘totally agree’ and ‘tend to agree’) in country i at time t , α is the general intercept, μ_i is the country fixed effect of country i , τ_t is the time fixed effect for time t , β is a parameter to be estimated, $u_{i,t}$ is the unemployment rate of country i at time t , and $\varepsilon_{i,t}$ is the error term. We estimated this simple model both with and without fixed effects (Table 1).

Our results show a very strong association between the unemployment rate and the prevailing view on whether globalisation is an opportunity for economic growth. Even when we include both country and time fixed effects, the estimated value of β is statistically highly significantly different from zero. The

negative estimated parameter suggests that when the unemployment rate is higher, fewer people believe that globalisation is good for growth. The estimated parameter is close to minus one, implying that a one percentage point higher unemployment rate is associated with a one percentage point lower support for globalisation. On average across the EU, changes in the unemployment rate explain about one-quarter of the changes in support for globalisation. While this magnitude is sizable, it indicates that there are other determinants of the changes in support for globalisation. Moreover, the country fixed effects vary between -21 for Greece and plus 18 for Denmark (according to model 2 of Table 1), implying that for a given level of unemployment, support for globalisation is 21 percentage point lower in Greece than the average in the EU, and it is 18 percentage points higher in Denmark than in the average of the EU. Therefore, our panel regression model captures part of the cyclical variation in globalisation support, but not the structural differences between countries.

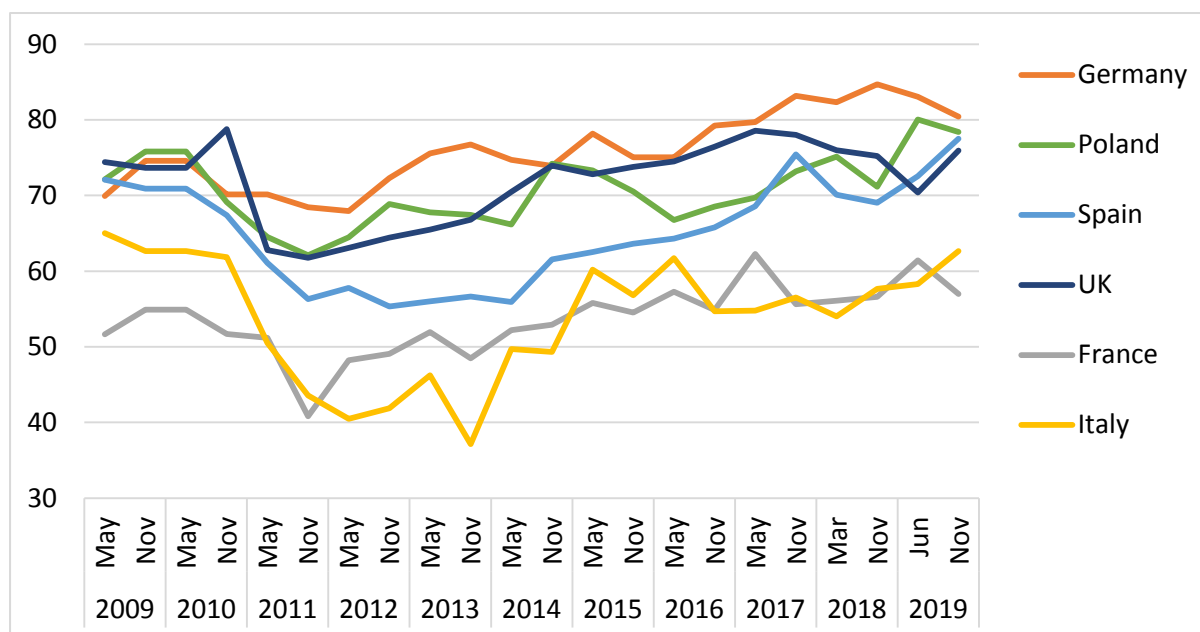
Table 1: Panel regression results – the share of positive response to the statement ‘globalisation is an opportunity for economic growth’ is regressed on the unemployment rate, 28 EU countries

	Model 1	Model 2	Model 3	Model 4
β	-1.21	-0.95	-1.15	-0.53
Standard error	0.10	0.09	0.11	0.09
t-ratio	-11.6	-10.2	-10.6	-5.7
R2	0.19	0.81	0.25	0.88
Country fixed effects	no	yes	no	yes
Time fixed effects	no	no	yes	yes
Cross-sections included	28	28	28	28
Total pool (balanced) observations	588	588	588	588

Source: Bruegel. Note: the sample includes biannual data between the first half of 2009 and the first half of 2019 for the 28 EU countries, using opinion data from Eurobarometer and unemployment rate data from Eurostat. The unemployment rate figures refer to the first quarter of each half year.

There is no uniform EU view on whether globalisation is a positive force. Among the EU’s six largest countries, Germans view globalisation as a driver of economic growth most positively, with an 80 percent favourable view in November 2019, while Italy and France score lowest at about 60 percent. This difference in public opinion also coincides with differences in the unemployment rates in different countries. The large fall in the support for globalisation from 2009 to 2013 in Italy, a country that performed very weakly economically in this period, is consistent with the view that growth and unemployment influence attitudes. Interestingly, views in the UK were similarly positive to views in Germany, with close to 80 percent of respondents having a favourable attitude in 2016, but this indicator had declined to 70 percent by June 2019. An interesting question is whether the difficult Brexit negotiations contributed to this decline.

Figure 9: Share of citizens who view globalisation as an opportunity for economic growth, percent, 2009-19



Source: Eurobarometer Standard Surveys (<https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm>).

Note: Values shown are the combined shares of those who “totally agree” and “tend to agree” that “globalisation is an opportunity for economic growth”, among those who answered this question.

Let us now examine public opinion about two key aspects of globalisation: free trade and immigration, using both the EU’s Eurobarometer Survey and the PEW Research Center’s Global Attitudes Surveys.

3.2 Free trade

Europeans have an overwhelmingly positive view of free trade (the right side of Figure 7): in 2006, 70.7 percent of all respondents (or 78.5 percent of those who answered this question) had a positive view of free trade. By June 2019, these already high shares had increased (after some fluctuation) to 74.5 percent and 81.1 percent, respectively. It seems that recent trade conflicts and some opposition to certain EU trade deals, such as that signed with Canada, have not reduced the enthusiasm of European citizens for free trade.

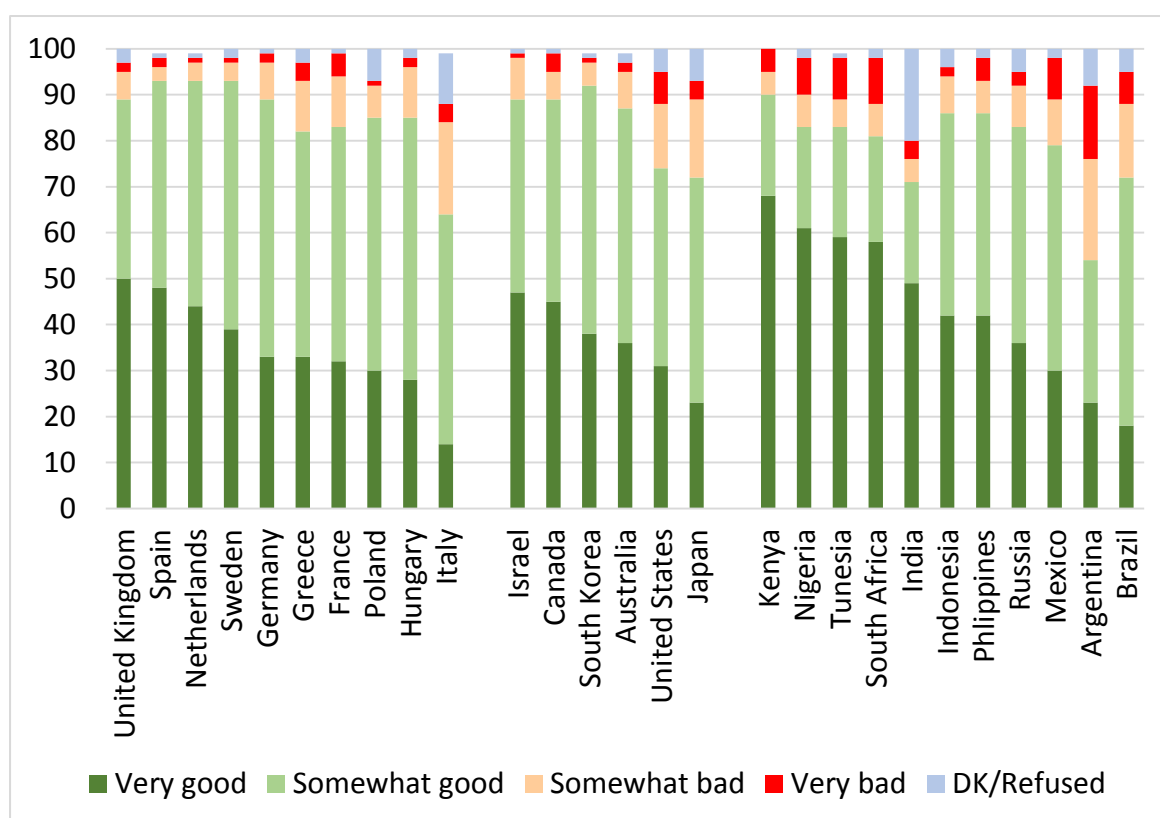
Overwhelmingly positive views about trade also prevail in many countries, as shown by the PEW *Global Attitudes Survey*. Figure 10 shows public opinion about growing trade and business ties between respondents’ home countries and other countries. On average, emerging and developing countries have the most positive views when considering only the answer “very good”, but when we consider jointly the “very good” and “somewhat good” options, EU countries have the most positive views on average with an 86 percent support value, followed by other advanced countries with 84 percent and emerging and developing countries with 79 percent⁹, though the country sample might not correspond to a representative sample. Among the EU countries considered in the 2018 PEW survey, Italians are least supportive of trade, which is broadly in line with the findings of Eurobarometer surveys.

As regards recent changes in public opinion, the combined shares of “very good” and “somewhat good” (among those who answered the question) went up from 83.1 percent in 2014 to 87.0 percent in 2018

⁹ Unweighted average of countries for which the data is available.

on average over seven EU countries for which the same question was asked in both years (France, Germany, Greece, Italy, Poland, Spain, UK). There was also some increase in the average of four non-EU advanced countries (Israel, Japan, South Korea and the United States) from 82.5 percent to 84.8 percent over the same period, while there was a decline in the average of eleven non-EU developing and emerging countries from 85.8 Percent to 82.8 percent (Argentina, Brazil, India, Indonesia, Kenya, Mexico, Nigeria, Philippines, Russia, South Africa and Tunisia). Therefore, support for free trade has increased the fastest in Europe among the countries for which data is available, even if the country sample might not correspond to a representative sample.

Figure 10: Support for growing trade and business ties between the home country and other countries, % of responses, 2018



Source: Spring 2018 Global Attitudes Survey of PEW Research Center. Note: the question asked: "What do you think about the growing trade and business ties between (survey country) and other countries - do you think it is a very good thing, somewhat good, somewhat bad or a very bad thing for our country?"

The same question on growing trade and business ties between the home country and other countries was asked in 2002, 2007, 2008, 2009, 2010, 2011, 2014 and 2018, in 64 countries altogether. However, there are only ten countries in which the question was asked on all of the eight occasions. In 25 countries, this question was asked on at least five of these eight occasions. These 25 countries include six EU countries and 19 non-EU countries.

Similarly to our estimates for the cyclical impact of unemployment on support for globalisation, we estimated a panel model by regressing the support for trade on the level of the unemployment rate. Beyond the full sample of 25 countries, we estimated the model separately for the six EU countries and the 19 non-EU countries. For the six EU countries the estimated parameter was negative but not

statistically different from zero¹⁰, possibly because of the low number of observations. But for the 19 non-EU countries (as well as for the full sample of 25 countries), regression results are rather similar to our earlier findings on the cyclical impact of unemployment on support for globalisation: a higher level of unemployment is negatively associated with positive views about trade (Table 2). The result is again robust to the inclusion of country and time fixed effects in the model.

The country fixed effects vary between -14 (United States and Egypt) and plus 17 (South Africa) according to model 2 of Table 2, suggesting that there are important structural determinants of support for free trade, which are not included in our model.

Table 2: Panel regression results – the share of positive responses to the question whether ‘growing trade and business ties between the home country and other countries’ is regressed on the unemployment rate, 19 non-EU countries

	Model 1	Model 2	Model 3	Model 4
β	-0.68	-0.84	-0.70	-1.25
Standard error	0.17	0.31	0.17	0.30
t-ratio	-3.9	-2.7	-4.0	-4.1
R2	0.10	0.76	0.16	0.81
Country fixed effects	no	yes	no	yes
Time fixed effects	no	no	yes	yes
Cross-sections included	19	19	19	19
Total pool (unbalanced) observations	134	134	134	134

Source: Bruegel. Note: the sample includes data from 2002, 2007, 2008, 2009, 2010, 2011, 2014 and 2018 for 19 non-EU countries (with some missing values). The question asked: “What do you think about the growing trade and business ties between (survey country) and other countries - do you think it is a very good thing, somewhat good, somewhat bad or a very bad thing for our country?”. The combined share of those responding “very good” and “somewhat good” (source: Pew Global Attitudes & Trends Question Database) is regressed on the unemployment rate (source: World Bank World Development Indicators for all countries but South Africa, for which the source is the IMF World Economic Outlook database October 2019). The 19 countries considered are: Argentina, Brazil, China, Egypt, India, Indonesia, Israel, Japan, Jordan, Kenya, Lebanon, Mexico, Nigeria, Pakistan, Russia, South Africa, South Korea, Turkey, and the United States.

Notwithstanding the rather high support for free trade in many countries, many people voice concerns about the impact of trade on jobs, wages and prices, as highlighted by Stokes (2014). On average, slightly less than half of respondents think that trade with other countries creates jobs at home, ranging between as low as 17 percent in Italy to 61 percent in the Netherlands and Poland, among the ten European countries included in the 2018 PEW survey (Panel A, Figure 11). The contrast between Japan (21 percent) and South Korea (57 percent) is similarly large, as is that between Argentina (19 percent) and Tunisia (67 percent).

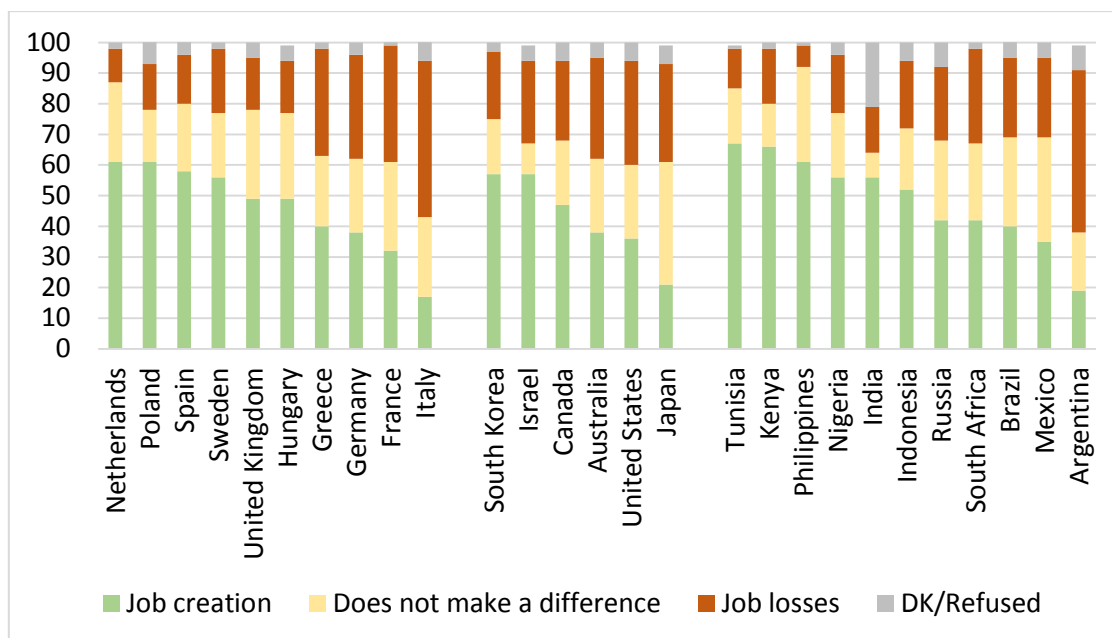
Even fewer, about one-third, of respondents believe that trade with other countries increases wages at home, ranging between 12 percent in Italy and 52 percent in Poland, among the ten European countries (Panel B, Figure 11). Similarly, about one-third of respondents in the EU, and in non-EU advanced countries, believe that trade with other countries decreases prices at home, while the

¹⁰ When both country and time fixed effects are included, the estimated β parameter is -0.3 with a t-ratio of 1.6 for the EU sample with six countries. This is statistically different from zero at the 13 percent significance level.

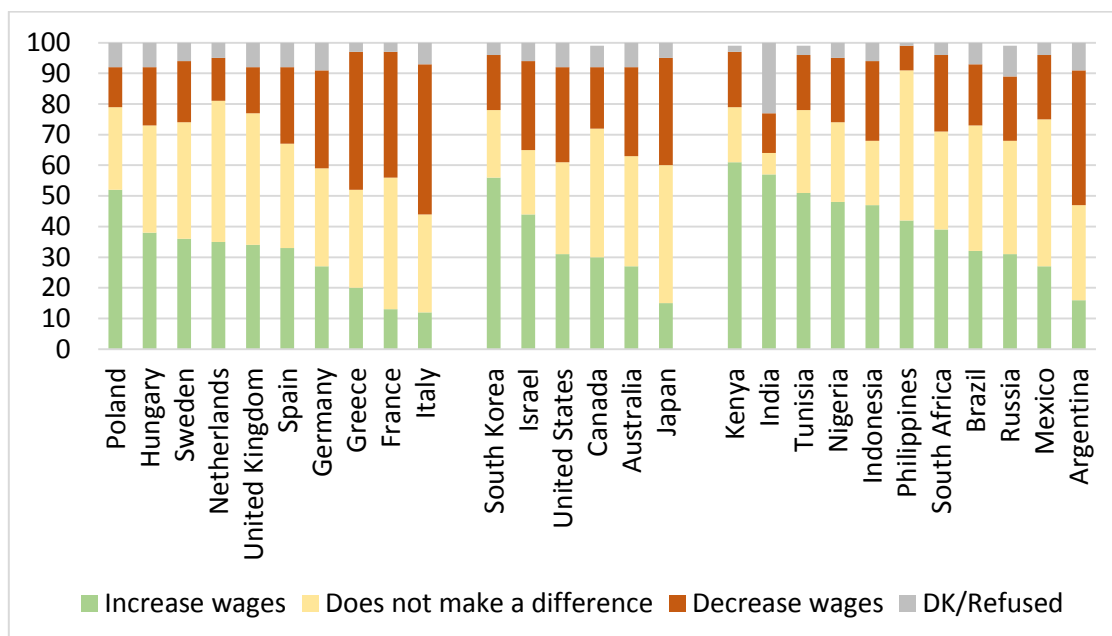
average share of such views is just about one-fifth in emerging and developing countries (Panel C, Figure 11).

Figure 11: Impact of trade on jobs, wages and prices, % of responses, 2018

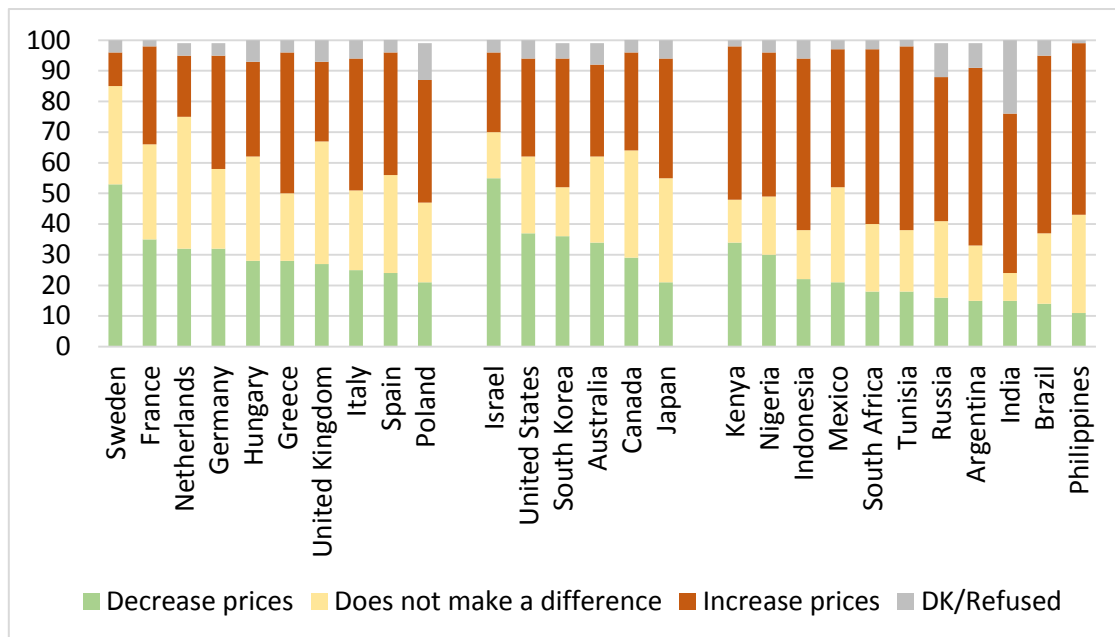
(A) Jobs: Does trade with other countries lead to job creation in (survey country), job losses, or does it not make a difference?



(B) Wages: Does trade with other countries lead to an increase in the wages of (survey country nationality) workers, a decrease in wages, or does it not make a difference?



(C) Prices: Does trade with other countries lead to an increase in the price of products sold in (survey country), a decrease in prices, or does it not make a difference?



Source: Spring 2018 Global Attitudes Survey of PEW Research Center.

Therefore, while a large majority, about 80 percent, believe that trade with other countries is either very good or somewhat good, only about half of the respondents believe that trade creates jobs at home, and about a third believe that trade increases wages and decreases prices at home in the sample of ten European countries. On average, the view in non-EU advanced countries is similar, while even fewer people in developing and emerging countries think that trade lowers prices at home.

3.3 Immigration

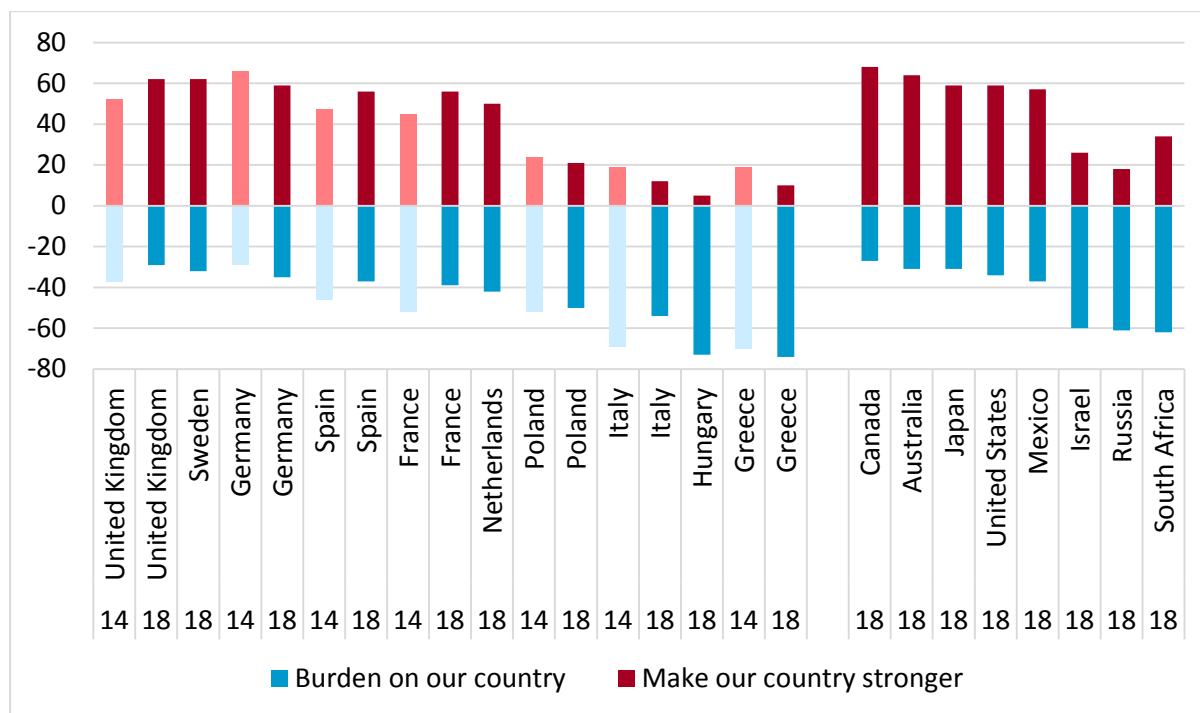
Immigration is a more divisive topic than trade, though recent trends also indicate greater public support in the EU for immigration. Immigration still tops the list of challenges of greatest concern to European Union citizens, according to the Eurobarometer surveys, though the share of respondents putting immigration among the two top EU concerns fell from a peak of 58 percent in November 2015 (the year when the EU received more than 1.2 million new asylum applications) to 34 percent in June 2019.

According to the International Organisation for Migration (2015), Europeans are more negative about immigration than people from other continents. The PEW survey allows us to assess this question using more recent data. In 2018, 74 of Greeks and 73 percent of Hungarians believed that immigrants are a burden on their countries because they take jobs and social benefits, while the share of such people was around 27 percent in the United Kingdom and close to one-third in Sweden and Germany. The range for the surveyed non-EU countries was similar with 60-62 percent believing immigrants are a burden in South Africa, Russia and Israel, but only 27 percent in Canada, 31 percent in Australia and Japan and 34 percent in the United States. Views about this aspect of immigration turned more favourable between 2014 and 2018 in four European countries (France, United Kingdom, Spain and Italy), they remained broadly unchanged in Poland, and turned more negative in two countries: in Germany from relatively high level in 2014 and in Greece from an already very low level in 2014.

Therefore, in most EU countries surveyed, views about the economic aspects of immigration turned more favourable between 2014 and 2018.

Figure 12: Public opinion on immigration in a global perspective, % of responses, 2014 and 2018

Immigrants today make our country stronger because of their work and talents [OR] Immigrants today are a burden on our country because they take our jobs and social benefits



Source: Spring 2014 and 2018 Global Attitudes Survey of PEW Research Center. Note: only seven European countries were surveyed in 2014 (indicated by “14” below the country name), while in 2018 ten European and eight non-European countries were surveyed (indicated by “18” below the country name). The shares of respondents answering “neither”, “both” and “do not know”, as well as those refused to answer, are not indicated.

The Eurobarometer surveys allow us to analyse the shifts in public attitudes toward immigration in every EU country starting in 2015, separating immigration from inside the EU and from outside the EU. Europeans’ enthusiasm for the intra-EU mobility of people is relatively high and is rising (Figure 13). In May 2015, the first time the Eurobarometer survey included a related question, 51 percent of respondents were either very or fairly positive about immigration from other EU countries, 40 percent were either very or fairly negative, while 9 percent did not give an answer. Since then, support for intra-EU immigration has risen steadily. By November 2019 it reached 69 percent in support, 24 percent against and 7 percent who do not know. If we disregard those who did not answer, 74 percent of EU citizens had a positive view of intra-EU movement of people in June 2019, a rather high value.

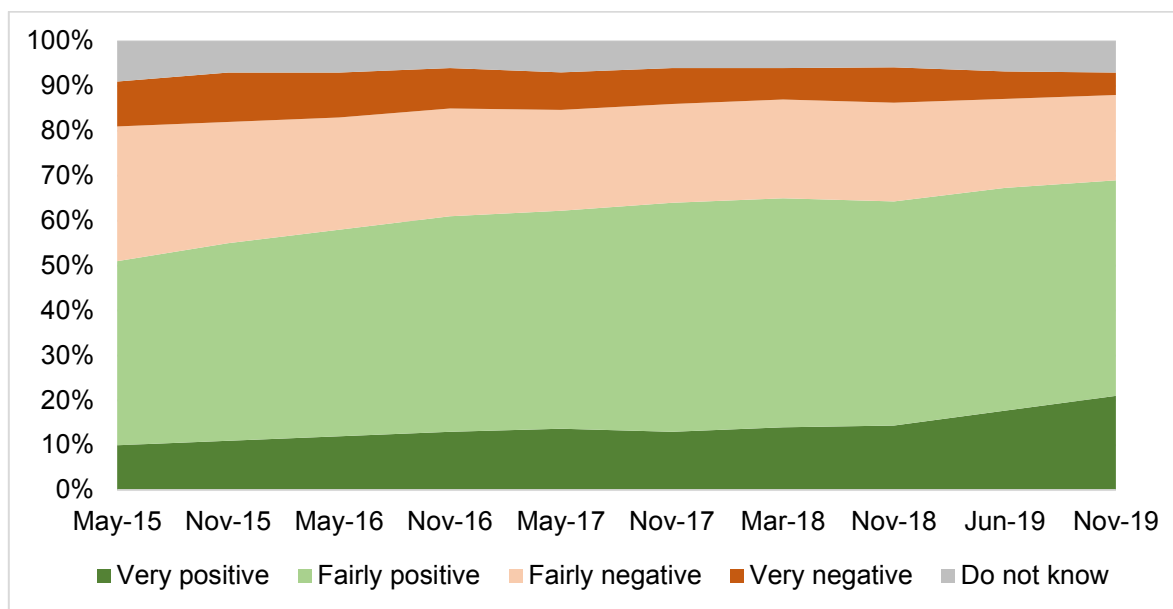
A similar issue, ‘The right for EU citizens to live in every Member State of the EU’ receives even greater support, with 74 percent positive and only 9 percent disapproving, while 15 percent regarded it as ‘neither good, nor bad’ in November 2019 (2 percent of the respondents did not know).

These results suggest that a large majority of European citizens favour the labour mobility aspect of European integration.

There is less support for immigration from outside the EU, but favourable attitudes towards this also show a slightly increasing trend (Figure 14). In May 2015, 34.3 percent of EU respondents had a

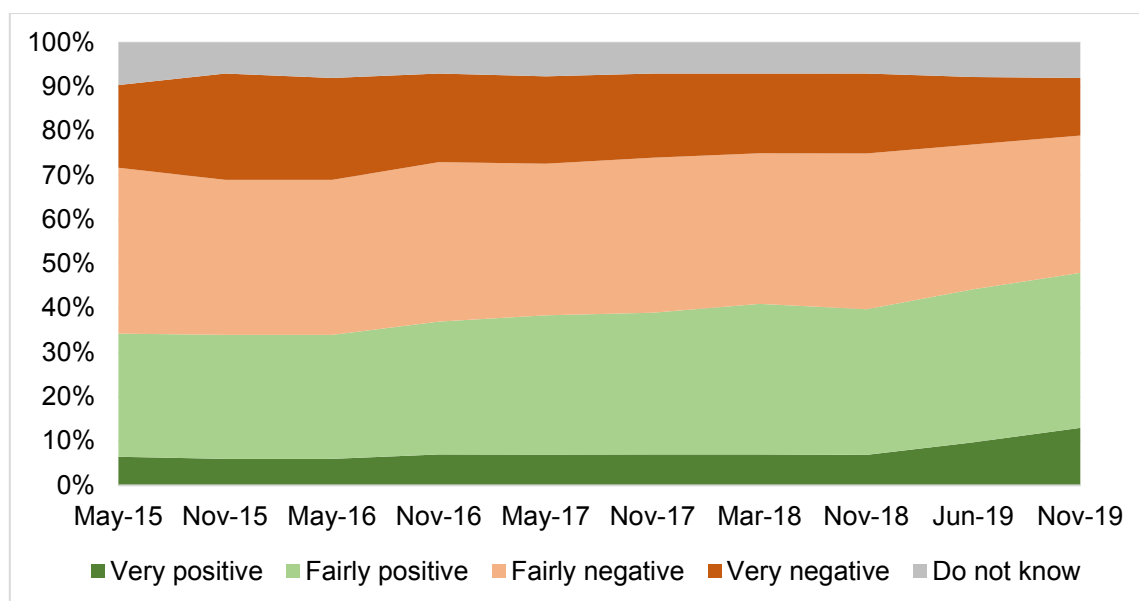
positive view of extra-EU immigration (37.9 percent if we consider only those who answered this question). This had increased to 48 percent (or 52 percent if we consider only those who answered this question) by November 2019. Notwithstanding this increase, however, only about half of respondents express a positive attitude to extra-EU immigration, suggesting divided views.

Figure 13: Support for immigration from inside the EU, percent of responses, EU average, 2015-2019



Source: Eurobarometer standard surveys, <https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm> Note: respondents were asked: "Please tell me whether each of the following statements evokes a positive or negative feeling for you – immigration of people from other EU member states."

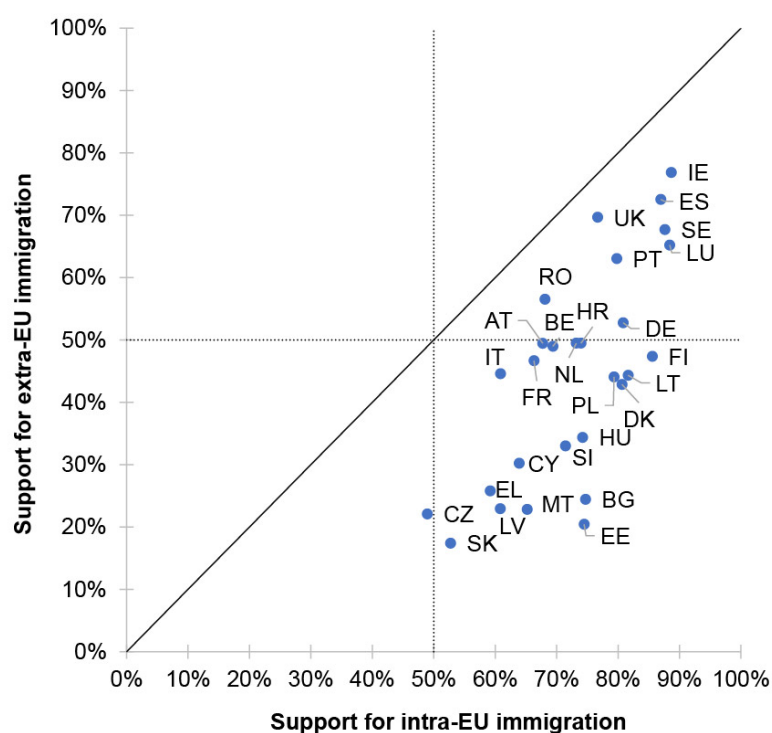
Figure 14: Support for immigration from outside the EU, percent of responses, EU average, 2015-2019



Source: Eurobarometer standard surveys, <https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm> Note: respondents were asked: "Please tell me whether each of the following statements evokes a positive or negative feeling for you – immigration of people from outside the EU".

Figure 15 compares support for immigration from other EU countries (horizontal axis) and from outside the EU (vertical axis) for each EU country in November 2019. The 45-degree line would correspond to equal support for the two sources of immigration, but all data points are below this line, highlighting that in every EU country, there is more support for immigration from other EU countries than for immigration from outside the EU. And there are significant differences between EU member states. The Czech Republic is the only EU country where support for intra-EU immigration is less than 50 percent, and support for extra-EU immigration is among the lowest. Support for extra-EU immigration is also quite low in other central European countries: Latvia, Estonia, Bulgaria, Hungary, Slovakia, Slovenia and Greece. In contrast, support for extra-EU immigration exceeded 60 percent in Ireland, Spain, Luxembourg, Portugal, the United Kingdom and Sweden in June 2019.

Figure 15: Support for immigration from inside the EU vs. immigration from outside the EU, percent of respondents, November 2019



Source: Eurobarometer, June 2019. Note: respondents were asked: “Please tell me whether each of the following statements evokes a positive or negative feeling for you – immigration of people from other EU member states; immigration of people from outside the EU”. Share of respondents responding ‘very positive’ and ‘fairly positive’ are added together and shown as a share of those who responded to this question.

It is also noteworthy that support for intra-EU immigration stood at 73 percent in the United Kingdom in June 2019, an increase from 51.5 percent in May 2016, just a month before the UK’s referendum on EU membership (both numbers consider only those who answered this question). Intra-EU immigration was a major issue debated in the campaign for the June 2016 Brexit referendum. However, a simple correlation of the share of leave votes and the share of immigrants across UK regions is negative, that is: regions where there are more immigrants tended to vote to remain. When other regional characteristics are controlled for, such the age and educational structure of population, average income, income inequality, poverty and main geographical locations (London, Scotland, Northern Ireland, Wales), then the share of foreign-born population is not significantly associated with the share of leave votes (Darvas, 2016). These findings suggest that despite the high level of attention

intra-EU immigration received, it might have not been an important factor in the Brexit vote. And since June 2016, support among UK citizens for intra-EU immigration has increased significantly, reaching 77 percent by November 2019.

3.4 The socio-economic characteristics of those in favour of globalisation

In the EU, the share of people with a positive view of globalisation is 58 percent (among those who answered this question), as we noted in section 3.1. Beyond this average value, those in favour of globalisation exhibit clear socio-economic patterns (Table 3). In terms of age and education, three-quarters of young people and those who are still studying tend to have a positive view of globalisation. People aged 55 and older, and those who did not continue education beyond 15 years of age, are much less in favour.

Table 3: Positive EU public attitude toward globalisation by various social, economic and political dimensions

Age	15-24	25-39	40-54	55 +	
% agree	75	62	56	50	
Education (End of age)	15-	16-19	20+	Still studying	
% agree	48	55	60	75	
Consider belonging to	The working class	The lower middle class	The middle class	The upper middle class	The upper class
% agree	54	51	61	67	75
Difficulties paying bills	Most of the time	From time to time	Almost never/ Never		
% agree	42	55	61		
Situation of national economy	Good	Bad			
% agree	67	48			
Expectations situation of national economy	Better	Same	Worse		
% agree	66	59	49		
Use of the Internet	Everyday	Often/ Sometimes	Never		
% agree	60	52	51		
My voice counts in my country	Agree	Disagree			
% agree	64	45			
Satisfaction with democracy in my country	Yes	No			
% agree	68	43			
Satisfaction with democracy in EU	Yes	No			
% agree	70	40			
Image of EU	Positive	Neutral	Negative		
% agree	72	53	31		
Understand how the EU works	Agree	Disagree			
% agree	64	46			
Left-right political scale	Left	Centre	Right		
% agree	58	60	57		
Subjective urbanisation	Rural village	Small/ mid size town	Large town		
% agree	57	58	59		

Source: Bruegel based on Eurobarometer June 2019. Note: The table shows the percent of respondents who answered “very positive” or “fairly positive” to the question : “Could you please tell me for each of the following, whether the term brings to mind something very positive, fairly positive, fairly negative or very negative? - Globalisation”, among those who answered the question, along various social, economic and political characteristics. The average value is 58 percent.

A range of indications suggests that personal well-being is associated with support for globalisation. People who perceive themselves to be upper class or upper middle class are strongly in favour, while the working class and the lower middle class are much less supportive. Of those who almost never have difficulty paying bills, 61 percent have positive views about globalisation as an opportunity, compared to only 42 percent of those who have difficulty paying bills most of the time. Two-thirds of those who perceive both the current economic situation in their country and its outlook as good have positive views of globalisation, in contrast to less than half of those who think that both the current economic situation and the outlook are bad.

People with positive views of globalisation use the internet more often than those who have negative views.

Perceptions of individual political influence, proxied by the statement *“my voice counts in my country”*, also matter for those viewing globalisation positively. Of those who think their voice counts in their country, 64 percent also think positively about globalisation, compared to 45 percent of those who believe that their voice does not count in their country. The gap is slightly wider between those who are satisfied with democracy in their own country and those who are not (68 percent vs 43 percent).

Attitudes towards, and understanding of, the EU are also well correlated with attitudes to globalisation. About 70 percent of people who are satisfied with EU democracy, view the EU positively and understand how the EU works, also have a positive view of globalisation. In contrast, only 31 percent of those people who have a negative image of the EU have positive views of globalisation. Not surprisingly, those who have a positive view of globalisation are much more supportive of EU enlargement than those who have a negative view (68 percent versus 48 percent)

Finally, political orientation and the location of residence do not seem to matter. The share of people with positive views of globalisation is very close to the average of 58 percent for people supporting political parties on the left, centre and right, and people living in villages, small/mid-size towns and large towns.

Thus, it seems that younger and better-educated people view globalisation positively, as do those in better economic situations, those who feel politically included and those with a positive view of the EU.

Some of these results are in line with the socio-economic characteristics of people not casting protest votes, as found for example by Darvas (2016) and Darvas and Efstathiou (2016). The most important difference is the lack of an urban-rural divide for the support of globalisation, while there was a clear urban/rural divide for the Brexit vote and the election of Donald Trump as US president.

4 Policy implications

Globalisation and market integration create winners and losers. O'Rourke (2019) pointed to the anti-globalisation backlash of the nineteenth century, the Great Depression and the period of the gold standard as examples of how unexpected expansions of trade, migration and capital inflows have ultimately led to protectionist tendencies which set back the preceding rapid pace of globalisation. His conclusion was that instead of promoting ever-closer integration in an already highly globalised world, policymakers should focus on how to protect individuals and regions from the risks that markets, both domestic and international, inevitably give rise to.

Rodrik (2018) went even further, questioning the sustainability of European single market integration by saying that *“the European experience provides ample reason to be sceptical that something like that [market integration] can be achieved even regionally”* (page 27). However, our results, showing that Europeans have rediscovered their enthusiasm for globalisation, including free trade and immigration, cast doubt on the sceptical remark of Rodrik (2018).

One of the explanations for our finding could be economic gains, job creation and reduced unemployment in the EU in the past decade, as our regression results show. Another explanation could be that the EU has been able to take more policy action at European level, consistent with trade, financial and labour integration, as concluded by Papadia and Cadamuro (2020), a process they call *“policy Europeanisation”*. Yet another explanation could be that Europe is on track to put the interests of labour at the centre of its policies, exactly what Rodrik (2018) identified as one of the three most important areas for the rebalancing needed to maintain a reasonably open world economy.

The European Pillar of Social Rights (EPSR), jointly proclaimed by the European Parliament, the Council and the European Commission on 17 November 2017 in Gothenburg, has been greatly celebrated by European policymakers. It includes 20 principles including:

- Education, training, lifelong learning;
- Gender equality, equal opportunities, inclusion of people with disabilities;
- Employment support, work-life balance, healthy and safe work environment, unemployment benefits, minimum income;
- Childcare, long-term care, pensions, healthcare;
- Social dialogue, access to essential services.

While in itself the EPSR is just a declaration – a criticism frequently mentioned – social policies are national competences in the EU and the bulk of social protection spending is done by EU countries, ranging from 15 percent of GDP (in Romania) to 34 percent of GDP (in France)¹¹. The EU budget adds a minor amount to this. Therefore, the best way EU institutions can influence social policies is to adopt EU-wide legislation, such as on labour standards, and to make recommendations to EU national governments. From this perspective the adoption of EPSR was useful because it increases the

¹¹ Source: Eurostat's 'Expenditure: main results [spr_exp_sum]' dataset. Social protection expenditure includes: social protection benefits, sickness/health care, disability, old age, survivors, family/children, unemployment, housing, other social protection and the related administration costs.

prominence of discussions on social issues, inspires the European Commission to propose relevant legislation and encourages EU countries to act in line with the 20 principles¹².

The European Semester process, which is the EU's main tool for economic coordination, has also been upgraded to include social policies, even though we cannot report a major success so far. Each summer, the European Semester ends with Country Specific Recommendations (CSRs) adopted by the European Council. According to the calculations of Efstathiou and Wolff (2019), there was a slight increase in CSRs related to 'poverty reduction and social inclusion' from about 7-8 percent of all recommendations in 2013-16 to about 9-11 percent in 2017-2018. Whether 9-11 percent is commensurate with the importance of the 'poverty reduction and social inclusion' issue in EU policy priorities is a question to be discussed. But what is disappointing is that EU countries hardly implement these recommendations: Efstathiou and Wolff (2019) calculated that the implementation rate is around one-third in most years and was even lower at 28 percent for the 2018 recommendations. Therefore, it is fair to conclude that while EU institutions aim to foster more ambitious social targets, EU countries, which have primary responsibility in social and tax policies in the EU, are less enthusiastic about implementing social measures.

Nevertheless, social developments in the EU are encouraging in a number of ways. Labour force participation is going up in all EU countries – this development is in stark contrast to what happened in the United States from the mid-1990s to 2015 (Darvas and Pichler, 2017)¹³.

Other favourable social developments in the EU include the fall in the gender pay gap from 17.1 percent in 2010 to 16.2 percent in 2016, the fall in the rate of early school leavers from 14.7 percent in 2008 to 10.6 percent in 2017, and the fall in unmet medical needs from 3.1 percent in 2010 to 1.6 percent in 2017.

The level of country-wide income inequality is generally low in the EU compared to the US and emerging countries. For example, the Gini coefficient of disposable income inequality in 2017 was 46.8 in Brazil, 46.6 in Indonesia, 40.0 in Turkey, 39.6 in Thailand and 38.2 in the United States, but much lower in EU countries, 33.5 in Italy and Spain, 29.5 in France, 29.2 in Germany and 28.8 in Poland¹⁴. Moreover, between 2006 and 2017, income inequality fell in eight EU countries, remained broadly unchanged (change between plus/minus 1 Gini points) in nine, and increased in 10¹⁵. These changes suggest that income inequality developments within EU countries do not necessarily follow the global pattern of increasing inequality. Moreover, Darvas (2019) estimated that income inequality within EU member countries fell significantly between 1995 and 2017. Certainly, more could and should be done to reduce further adverse social developments including poverty, social exclusion, segregation, unemployment, gender inequality and unequal access to education and health-care systems – some of which result from high levels of income inequality. But some progress in these areas has been made in the EU, likely boosting support for globalisation, free trade and immigration.

¹² See the list of the most important concrete social legislation and recommendations proposed by the European Commission between 2015-2019 at: https://ec.europa.eu/commission/sites/beta-political/files/social_priorities_juncker_commission_en.pdf

¹³ Darvas and Pichler (2017) also calculated a hypothetical counter-factual scenario for the unemployment rates in the EU and US, by assuming that labour force participation stayed at its 2008Q1 level throughout the whole period, while maintain the trends in total employment. Under this scenario, the unemployment rate in the US would have been higher than in the EU in the whole period between 2008-2017, in contrast to actual data, which shows that unemployment rate was higher in the EU than in the US in 2011-2017 (and since then too).

¹⁴ Data source: Solt (2019).

¹⁵ Data source: Eurostat's 'Gini coefficient of equivalised disposable income - EU-SILC survey [ilc_di12]' dataset.

In addition to globalisation shocks arising from trade, finance and foreign investment, which create losers, a populist backlash against globalisation can result from mass immigration and refugee arrivals, as rightly argued by Rodrik (2018). From 2015 to 2017, the EU received in total 3.1 million new asylum-seeker arrivals, which caused immense problems and tensions and likely boosted the populist backlash, as analysed by Batsaikhan *et al* (2018). Yet even if EU countries were not able to agree on a fundamental reform of the EU's asylum system, some important measures have been taken, such as reinforcing border and sea rescue procedures, providing technical assistance to countries facing difficulties in handling mass immigration, reallocating EU funds to support asylum policies and immigrant integration policies, and a deal with Turkey to support the large number of refugees residing in Turkey. As a result of these measures, the share of EU citizens mentioning immigration as one of their top two concerns about the EU fell from 58 percent in November 2015 to 34 percent in June 2019¹⁶. While this is still a large share, the significant fall suggests that improvements have been made to EU immigration policies, and perhaps also reflects that the asylum-seeker pressure has come down and this issue is not in the news so much: while in 2015, 1.3 million first-time¹⁷ asylum seekers arrived in the EU, in 2018 the number was reduced to below 600,000. This is still more than double the number of first-time asylum seekers who arrived per year on average from 2008 to 2012, but is a significant decline from 2015.

Therefore, our overall conclusion is that economic developments in the EU not only defy the global tendency towards deglobalisation, but in fact support for globalisation, free trade and immigration among citizens is on the rise in the EU. The latter development is at least partly a result of policy measures to improve social fairness in the EU, combined with some success in containing the asylum-seeker pressure. But there is no cause to become complacent. The EU continues to have pressing social problems, which are especially concentrated in some member countries that performed disappointingly in economic terms during the past decade and that have weaker economic outlooks. In these countries, there is less support for globalisation than in countries with better economic fundamentals. With global and European economic growth slowing and the risk of a European recession increasing, unemployment tensions could re-emerge, which might reverse recent increases in support for globalisation.

¹⁶ Source: Eurobarometer surveys.

¹⁷ Rejected asylum seekers frequently apply for asylum again, possibly in another EU country. Therefore, we report the number of first-time asylum seekers and not the total number of asylum seekers.

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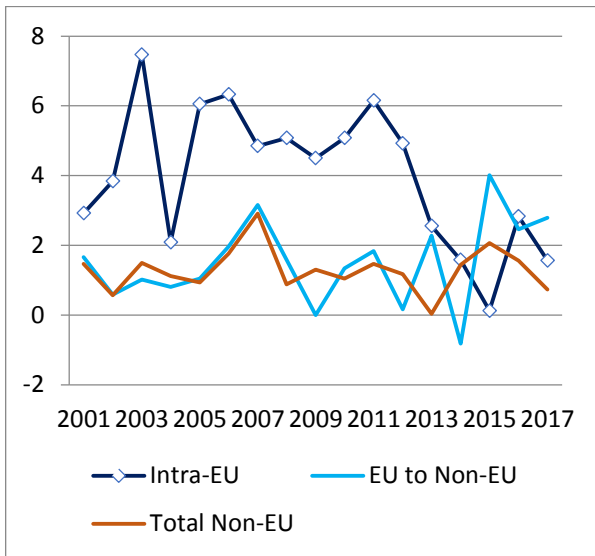
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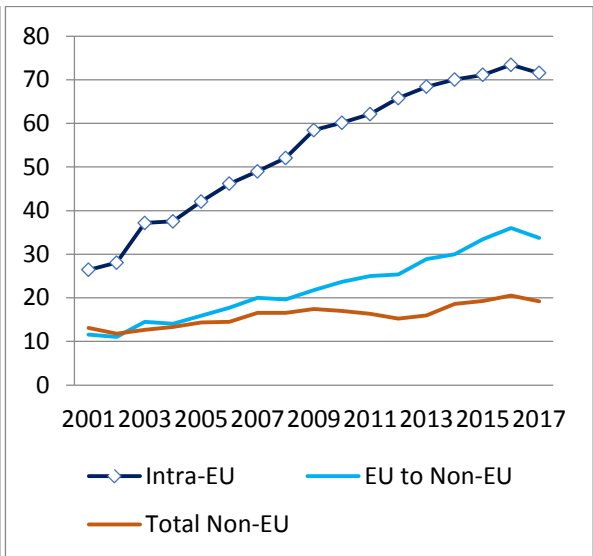
Annex: Figure 16: Composition of capital flows and foreign assets (percent of GDP), 2001 – 2017

I: Foreign direct investment

(A) Gross capital outflows

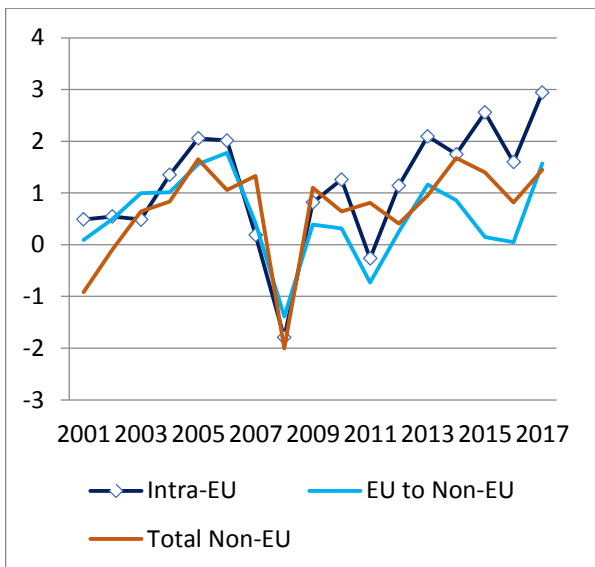


(B) Gross foreign assets

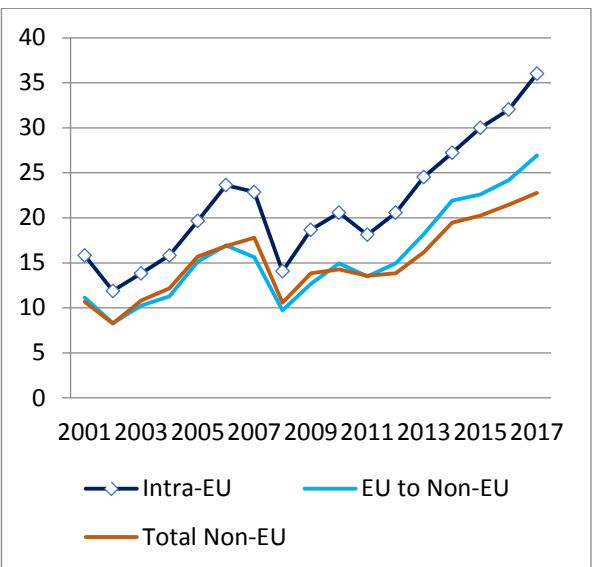


II: Portfolio investment - equity

(A) Gross capital outflows

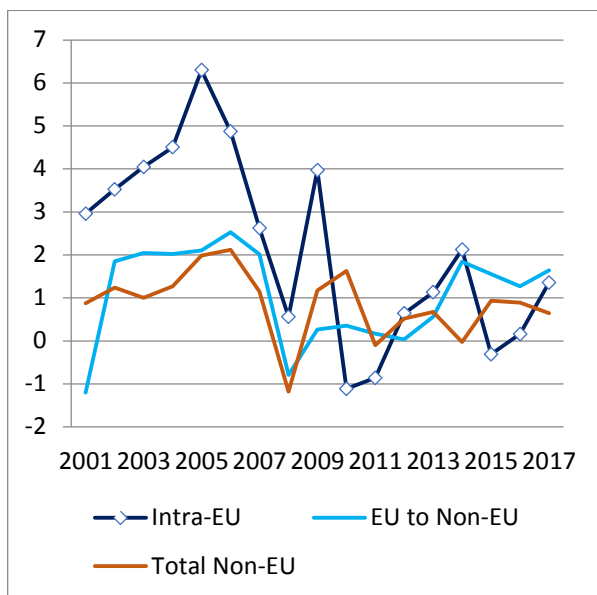


(B) Gross foreign assets

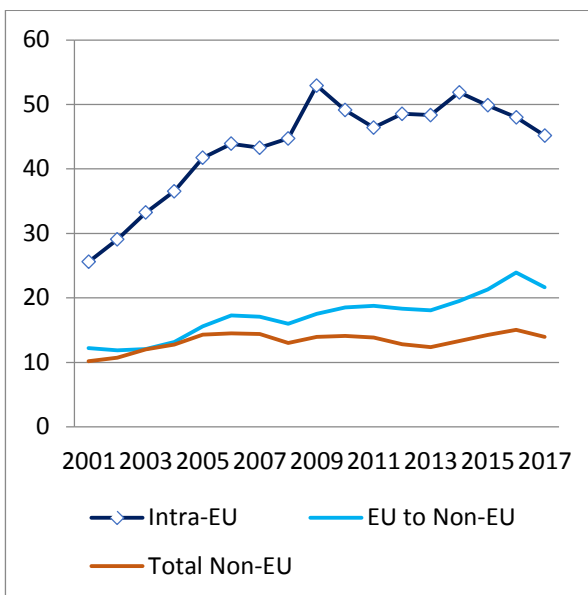


III: Portfolio investment - debt

(A) Gross capital outflows

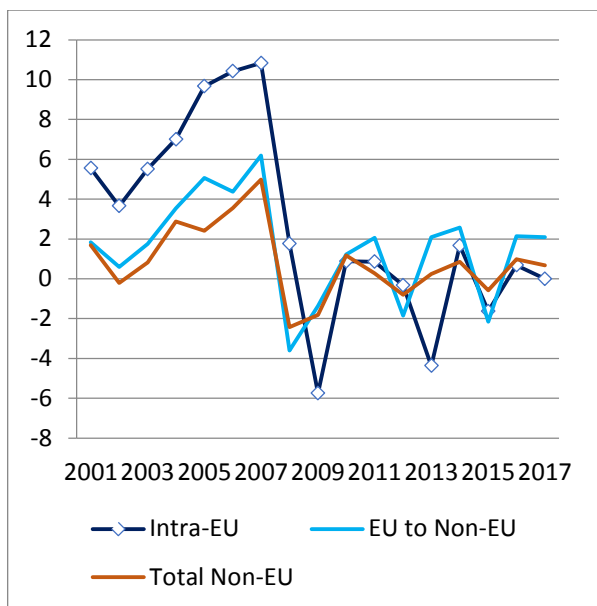


(B) Gross foreign assets

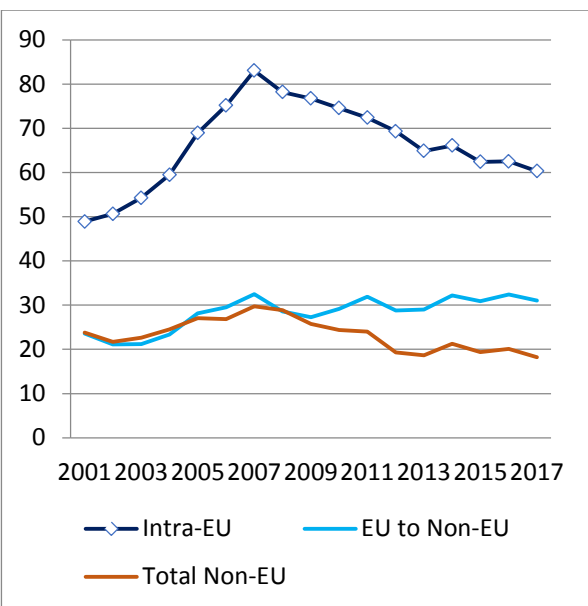


IV: Other investments

(A) Gross capital outflows



(B) Gross foreign assets



Source: Bruegel based on the European Commission's Finflows database (bilateral capital flows and stocks; <https://finflows.jrc.ec.europa.eu/>), October 2019 release of the IMF World Economic Outlook (GDP in US dollars; <https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx>), and Bloomberg (EUR/USD exchange rate).

Note: 'Intra-EU' and 'EU to Non-EU' are expressed as the share of EU GDP, while 'total non-EU' is expressed as a share of Non-EU GDP. Since Finflows does not include all countries of the world, the sum of flows/stocks to other EU countries and non-EU countries do not add up to the value of total flows/stocks as reported by the IMF. Similarly, the values of total flows/stocks for non-EU countries from Finflows do not equal the values of total flows/stocks from IMF data sources. An erroneous 2001 data point in the Finflows dataset (capital outflow from France to the Netherlands Antilles) was set to zero.



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