Resisting deglobalisation: the case of Europe

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Abstract

Global trade and finance data indicate that the rapid pre-2008 pace of economic globalisation has at least stalled, or has even reversed according to some indicators. Our calculations using bilateral trade and capital flows and stocks data show that Europe 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 since the declines brought on by the 2008 global crisis. By analysing public opinion in EU countries, we show that support for globalisation, and its two main manifestations, free trade and immigration, is on the rise. Our panel-model estimates for the 28 EU countries from 2009 to 2019 find a very strong association between the unemployment rate and the prevailing view on whether globalisation is an opportunity for economic growth. This finding suggests that economic factors at least partially drive views about globalisation, even if support for it also depends on other factors, such as xenophobia, fear of losing national cultural identity, technological changes and their impacts on labour markets, or fear of terrorism. Our analysis suggests that 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. Political orientation and the urban/rural location of residence do not seem to matter. Increased support for globalisation among EU citizens could also have been boosted by policies to improve social fairness in the EU, and by some success in containing asylum-seeker pressure. There have also been some notable actual improvements in social conditions in the EU. But there are no reasons to become complacent. EU countries should put greater emphasis on addressing pressing social problems by creating better opportunities for everyone and enhancing income redistribution underpinned by more progressive taxes.

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1. Introduction

Economic globalisation, which has supported economic growth around the world, is at a crossroads, with pressure against globalisation strengthening. Trade and financial integration advanced much less in the past decade than before the global financial and economic crisis of 2007-09, with certain indicators showing setbacks. Protectionist tendencies are rising 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 and Italy 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.

As O'Rourke (2018) notes, 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 boosts 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 Efstathou (2016) concluded that income inequality boosted the vote for Donald Trump in the 2016 US presentational election[1]. 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.

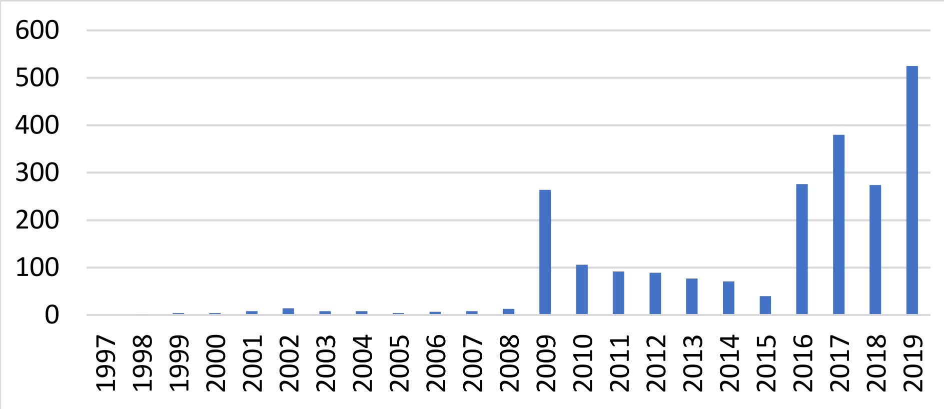
These results suggest that globalisation losers might vote against the status quo and instead support populist politicians who advocate anti-globalisation measures. Rodrick (2018) calculated that support for populist parties ran at only about two percent in the 1970s, but their share of the vote reached almost 25 percent in 2011-15. Even if populist parties do not come to power, their increased popularity influences the actions of 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 cultural identity, especially after a large wave of immigration, technological changes and their impacts on labour markets, and even the fear of terrorism.

Public discussion about 'deglobalisation' is intensifying. This word was hardly mention in the press before 2008, according to our Factiva search, but in 2009, and especially after 2016, more and more press articles use this term.

[1] These studies on the Brexit and Trump votes controlled for various other factors influencing voters, including age, education, income, unemployment, location, immigration and race.

Figure 1: Count of occurrences of the term ‘deglobalisation’ in the press from 1997 to 2019



Source: Bruegel based on Factiva. Note: The key words used are ‘deglobalisation’ and ‘deglobalization’. The cut-off date for 2019 was the 16 October 2019.

Talk about deglobalisation has certainly been influenced by the US-China trade dispute. The detailed calculations reported by Bown (2019) show that the average US tariff on imports from China will increase from 3 percent two years ago 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 current level of 6.7 percent.

The large increase in US-China bilateral tariffs has likely had a negative impact on trade between the two countries. It also likely has repercussions for other countries because of disruptions to global supply chains. Another negative impact on other countries could come from slower global growth, if the US-China trade dispute leads to a slow-down in these two large economies with adverse spill-over effects on other countries[2]. In its October 2019 *World Economic Outlook*, the IMF (2019) estimated that the 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) has cuts its global growth estimate for 2019 to 3 percent, which is the slowest pace since the global financial crisis and a major decline from 3.8 percent in 2017. The IMF argues that this subdued 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.

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 focus 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. We also analyse the socio-economic characteristics of European globalisation supporters and opponents. In section 4, we discuss policy options to contain the negative fall-out from globalisation.

[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.

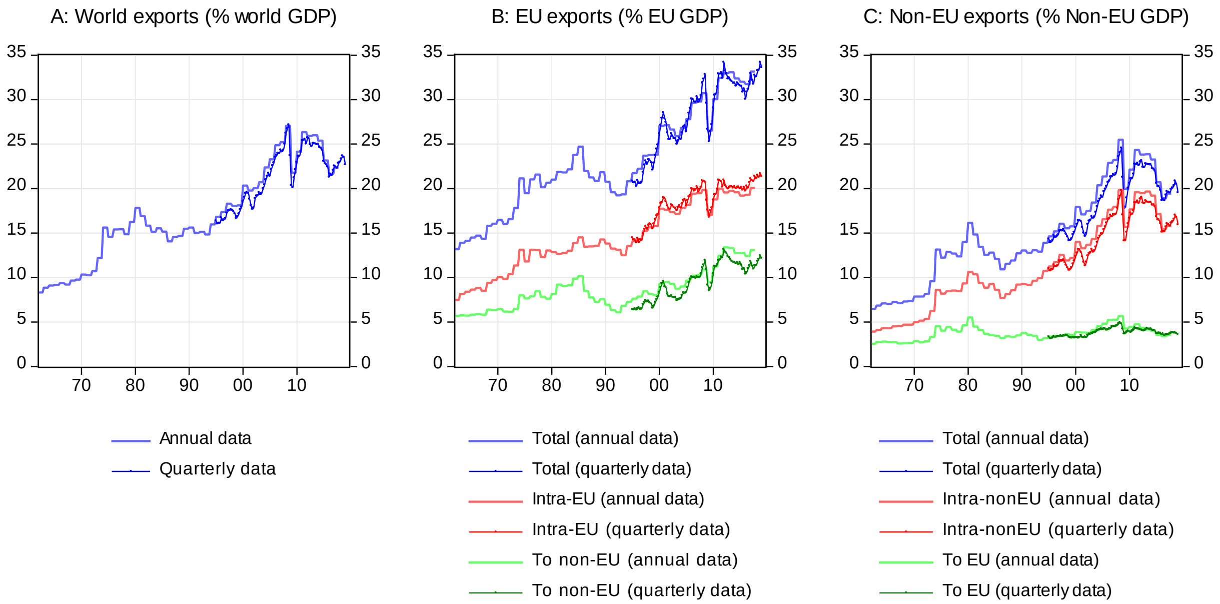
2. What does hard data say about deglobalisation?

We start by looking at the facts: by 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 the share of world trade in world GDP. While in earlier years, growth of trade was much faster than the growth of GDP, in more recent years, trade growth has slowed. Figure 2 (Panel A) shows that trade as a share of 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, the ratio has not regained its pre-crisis level. After 2011, the ratio started to fall again and by 2016 had reached lows observed during the global crisis. While there was some recovery in 2017-18, the current level of the 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.

Figure 2: Exports as a share of GDP, 1962-2019Q1



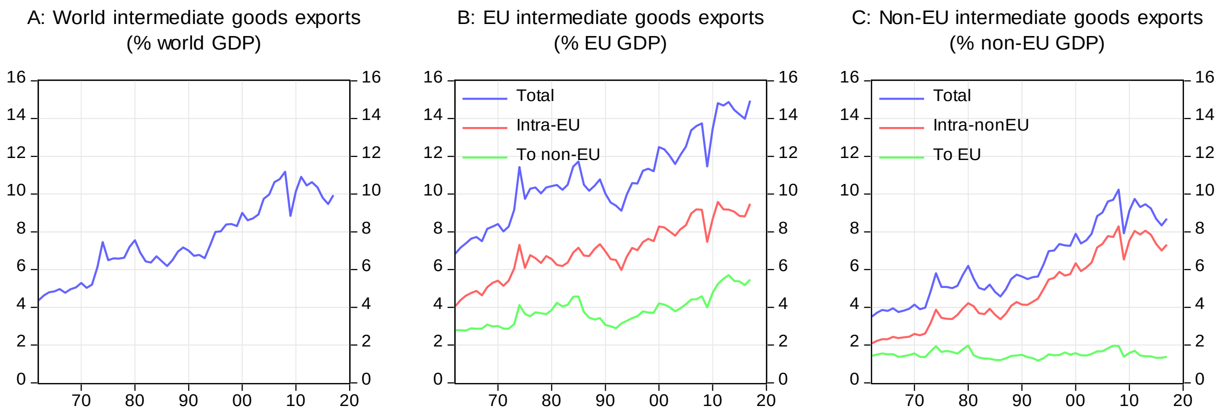
Source: Bruegel calculations using data annual bilateral trade data from The Growth Lab at Harvard University, 2019, "International Trade Data (SITC, Rev. 2)", https://doi.org/10.7910/DVN/H8SFD2, and the quarterly data on bilateral trade from the IMF's Direction of Trade Statistics (http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85),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

Note: at most 236 countries are considered for annual data, which is available for 1962-2017, and 199 countries are considered for the quarterly data, which is available for 1995Q1-2019Q1 (pre-1995Q1 quarterly data includes many missing values).

However, developments were different for EU countries (Figure 2 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.

The fall in the global trade/GDP ratio originates from developments in non-EU countries (Figure 2 Panel C). It is interesting to note that this decline comes from trade between non-EU countries, since exports of non-EU countries to the EU remain broadly the same as a share of GDP. A comparison of panels A and B of Figure 2 also demonstrates that the EU has always been more open to trade than non-EU countries when considering total trade. Yet given the EU's single marker integration allowing frictionless trade, it is puzzling that intra-EU trade is not so much higher than intra-non-EU trade. In 2007, before the global crisis, both reached 20 percent of GDP.

Figure 3: Exports of intermediate goods as a share of GDP, 1962-2017



Source/note: see Figure 2.

From the perspective of value chains, exports of intermediate goods are crucially important. We separated the intermediate goods components from total exports (Figure 3; 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 (after the global crisis). European participation in global value chains has been thus not significantly affected by deglobalisation tendencies.

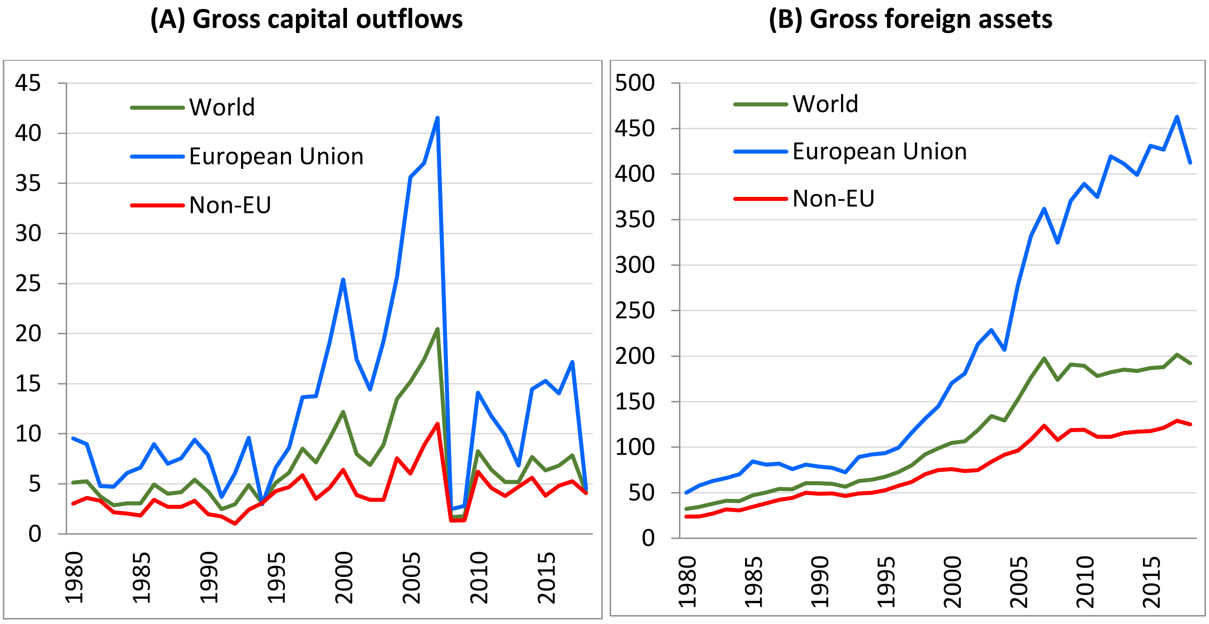
2.2 Capital

While the volume of capital flows as a share of GDP 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 outflows[3] increased from less than five percent of world GDP to 20

[3] 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

percent by 2007[4]. Figure 4 (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 GDP of this group of countries. As a result, global gross foreign assets as a share of GDP increased from 35 percent of GDP in 1980 to about 200 percent by 2007.

Figure 4: Capital flows and foreign assets (percent of GDP), 1980 – 2018



Source: Bruegel calculations 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), and October 2019 release of the IMF World Economic Outlook (GDP data).

Note: The 2005 data corresponds to the fifth edition of the IMF's Balance of Payments Manual (BPM5), while the latest data correspond 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

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 as well as 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 results from new transactions (i.e. capital outflows, either with positive or negative signs) and valuation changes of assets (which can also be positive or negative).

[4] We note that capital flows data are 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. Thereby, or wording of "global capital flows" and "world GDP" is literately 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.

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.

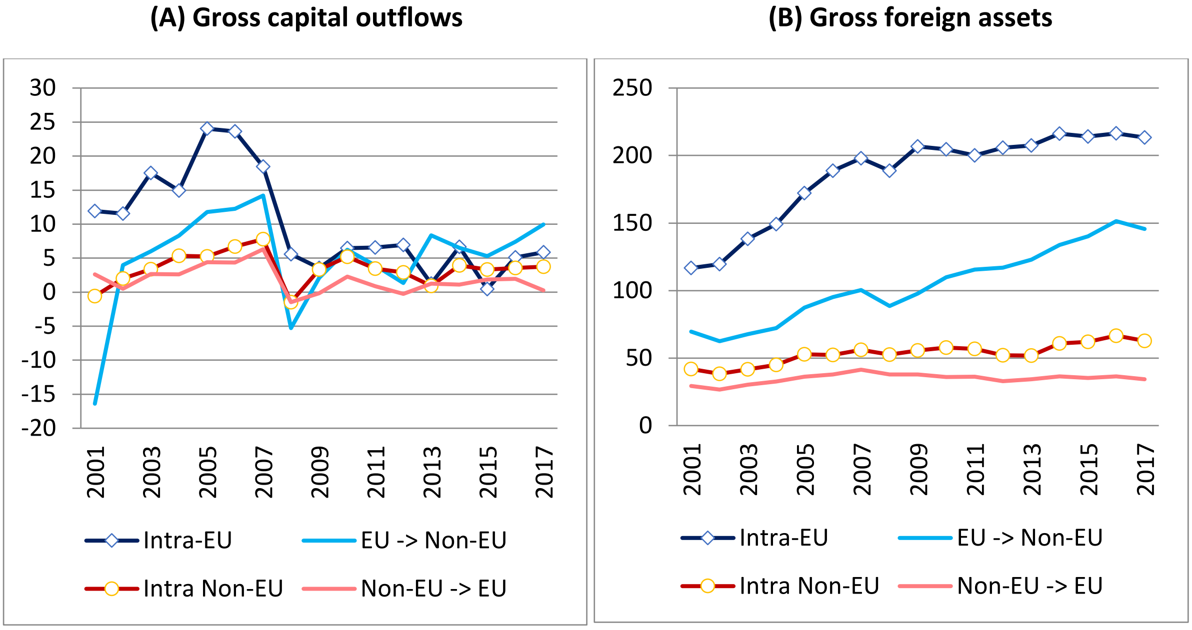
The global crisis led to withdrawal of earlier investments (negative gross capital outflows) in 2008 and 2009, but positive outflows resumed in 2010, though at a much lower level. The analysis of the composition of capital flows shows that mostly so-called ‘other investments’ (which mainly include cross-border loans) fell back, a finding in line with banking weakness. Portfolio investments also fell back 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’ (i.e. 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 increasing to 400 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. In contrast, foreign assets as a share of GDP increased to 124 percent of GDP in non-EU countries. The ratio was almost exactly the same, 125 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 well as 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 use the European Commission’s bilateral Finflows database. For intra-EU flows, we calculate the sum of all bilateral flows (that is, from each EU country to each other EU country) and divide it by EU GDP. Panel A of Figure 5 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 5 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).

Figure 5: Intra- and extra-regional capital flows and foreign assets (percent of GDP), 2001 – 2017



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

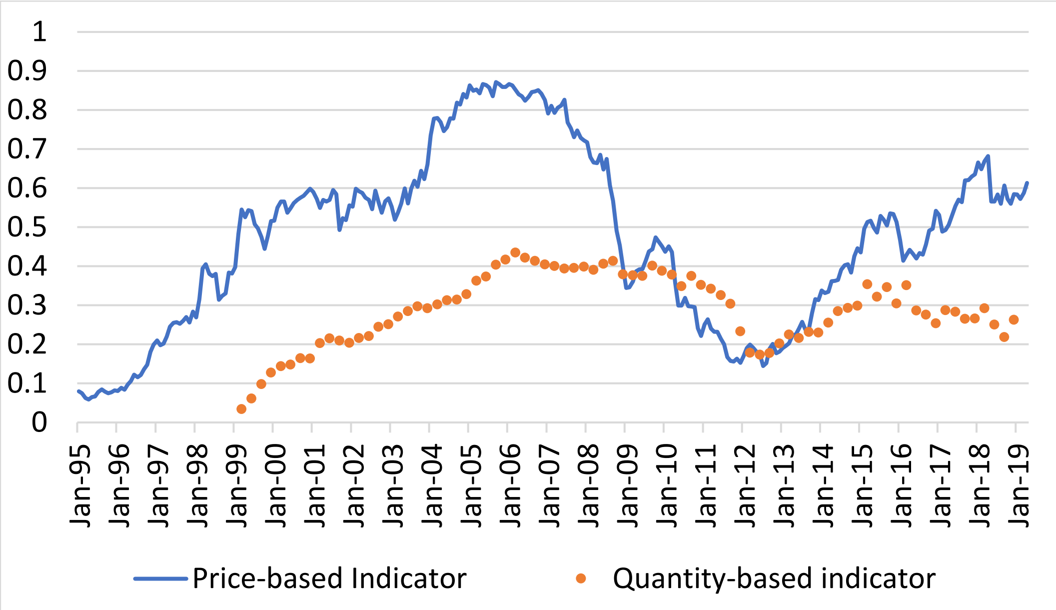
Note: Finflows is the joint database between DG-ECFIN and DG-JRC of the European Commission, that follows the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6, 2009). It reports values in euros. Finflows aim to resolve the inconsistency between countries' declarations (e.g. German claims on France, as reported by Germany, might not be the same as French liabilities to Germany, as reported by France). Transformation from USD into EUR of GDP data was done through yearly averages of the Bloomberg daily exchange rate. Our calculations consider bilateral capital flows and asset positions between 200 countries (of which 28 are EU members and 172 non-EU members for flows and 156 countries for stocks, although full bilateral information is not always available for all).

We calculated intra-non-EU claims the same way for the 172 non-EU countries for which data is available. Both flows and stocks (as a share of the combined GDP of these non-EU countries), and their growth rates, are lower than for EU countries. This finding again suggests a higher level of financial integration inside the European Union than for countries outside, and also highlights that financial deglobalisation (as reflected in stalling foreign asset/GDP positions) does not characterise the EU.

A more detailed picture 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 (e.g. 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 (e.g. 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 6). 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 is still somewhat below the levels observed in 2007.

Figure 6: The ECB's euro-area financial integration composite indicators, January 1995 – April 2019



Source: European Central Bank, [*https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/financial_integration/html/index.en.html*](https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/financial_integration/html/index.en.html)

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.

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 immigration according to citizenship: (1) home-country citizens, or 'return migration' (e.g. German emigrants returning to Germany from France or from the United States), (2) other EU28 citizens (e.g. 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 carry out this classification for 27 EU countries (with the exception of Bulgaria) and then sum-up the country-specific values to the EU level.

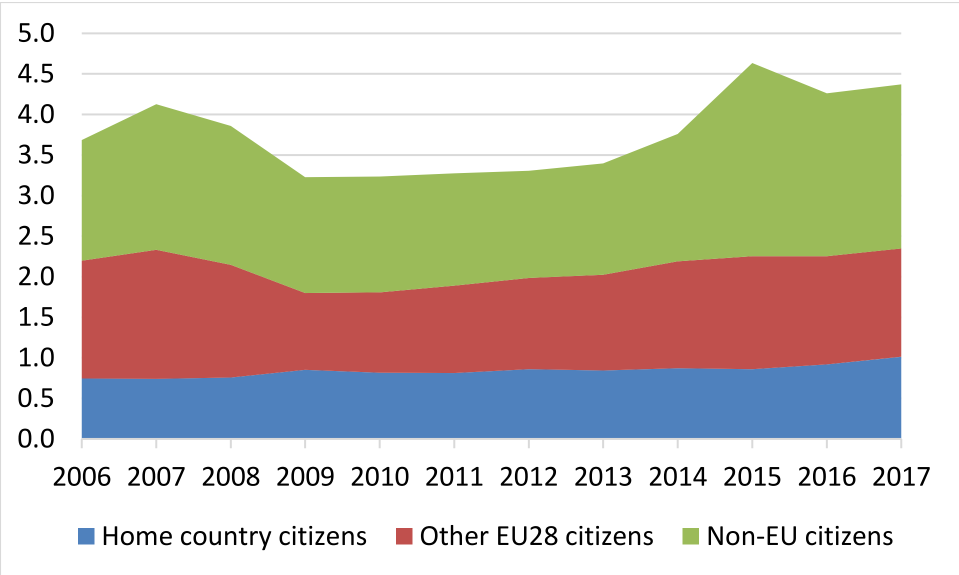
After the global financial crisis intensified and most advanced countries entered a recession, immigration into EU countries started to fall significantly, from 4.1 million people (or 0.84 percent of population) in 2007 to 3.2 million (or 0.65 percent of population) in 2009 (Figure 7). This fall resulted 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.

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

Figure 7: Immigration into/within the European Union countries, million people, 2006-2017



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

Note: 27 EU members, but Bulgaria, are considered as receiving countries (but Bulgarians emigrating to other EU countries are considered). Some missing data especially in 2006-2008 are 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 after the crisis-induced declines.

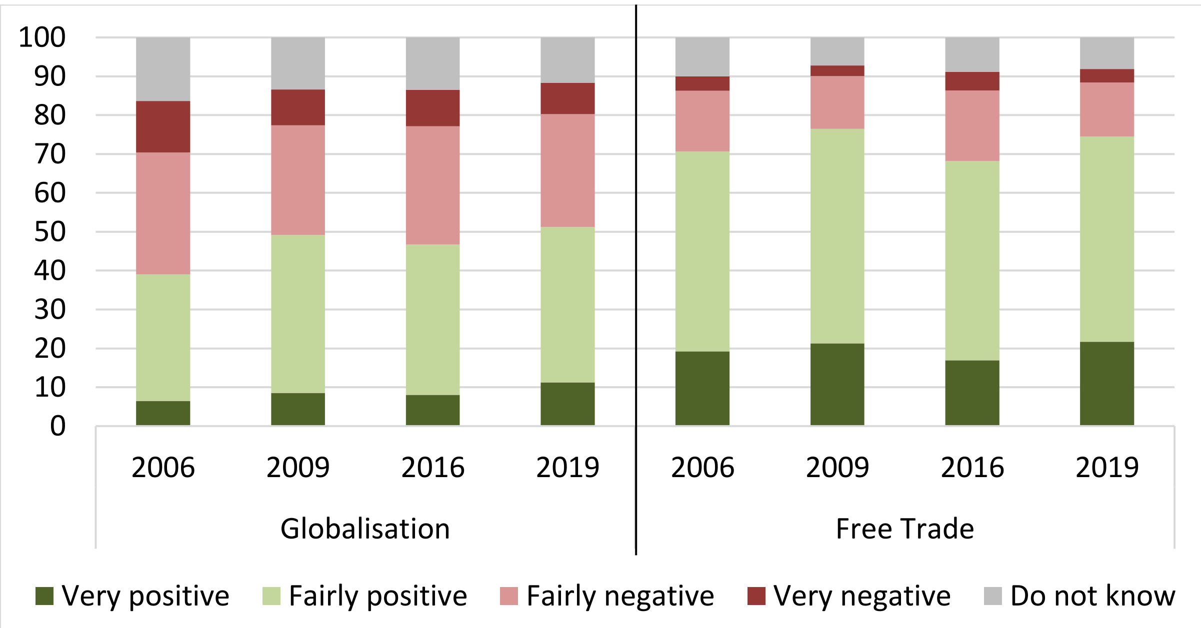
3. Public opinion

Valuable information about public opinion can be obtained from the European Union's Eurobarometer surveys. The standard survey involves approximately 1000 face-to-face interviews per EU country, with the results published twice per year. Most questions are repeated in each round of the survey, but this is not always the case. 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 8). The same applies to the 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 9). Questions are also asked about immigration, another phenomenon related to globalisation.

3.1 Globalisation

Figure 8 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.

Figure 8: EU public attitude toward globalisation and free trade, 2006-19

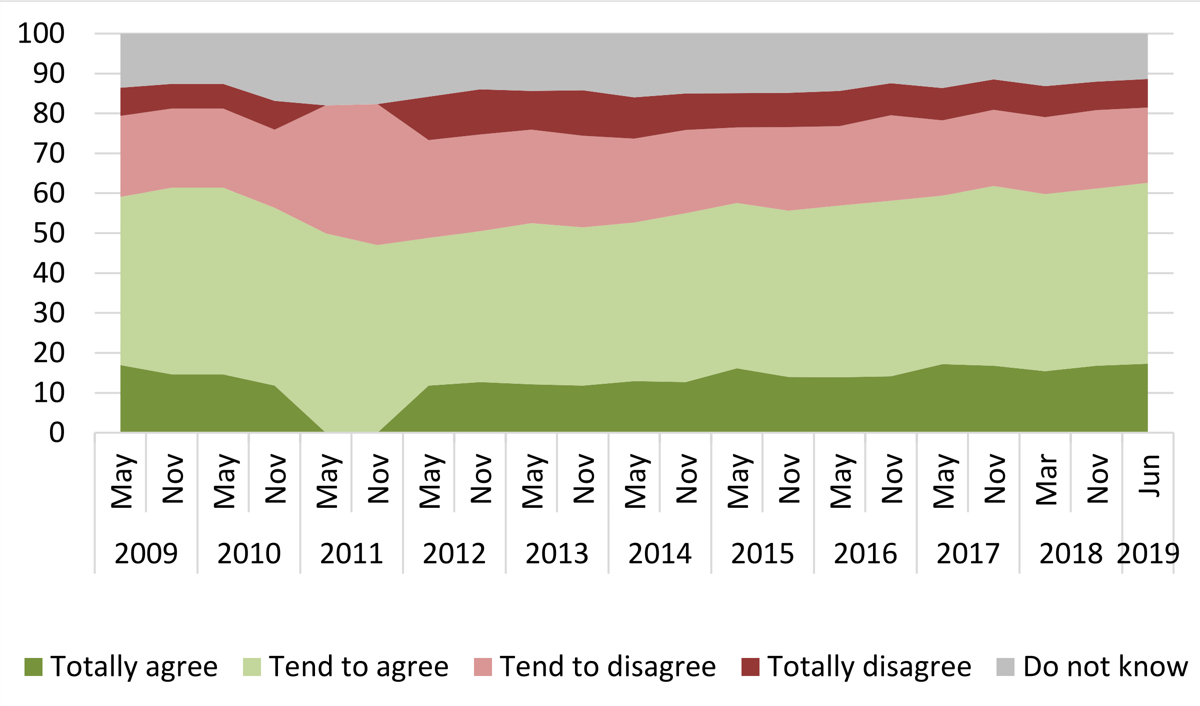


Source: Eurobarometer Standard Surveys (https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm).

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 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 9). A comparison of 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 June 2019, 62.6 percent of total respondents (or 70.8 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 9: 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 9 suggests an interesting dynamic: the positive view of globalisation as an opportunity for economic growth started to fall away after 2009 and then began to gradually recover in 2012. As noted by Batsaikhan and Darvas (2015), this development coincided with EU economic developments, since the most difficult years of the euro crisis, when the euro area entered a second recession and unemployment increased, were 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 economic situation correlates with views on globalisation, we ran the following panel regression:

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

where $p_{t,i}$ denotes the share of positive views on 'globalisation is an opportunity for economic growth' in country *i* at time *t*, α is the general intercept, $u_{i,t}$ is the unemployment rate of country *i* at time t, $\varepsilon_{i,t}$ is the error term and β is a parameter to be estimated. 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.

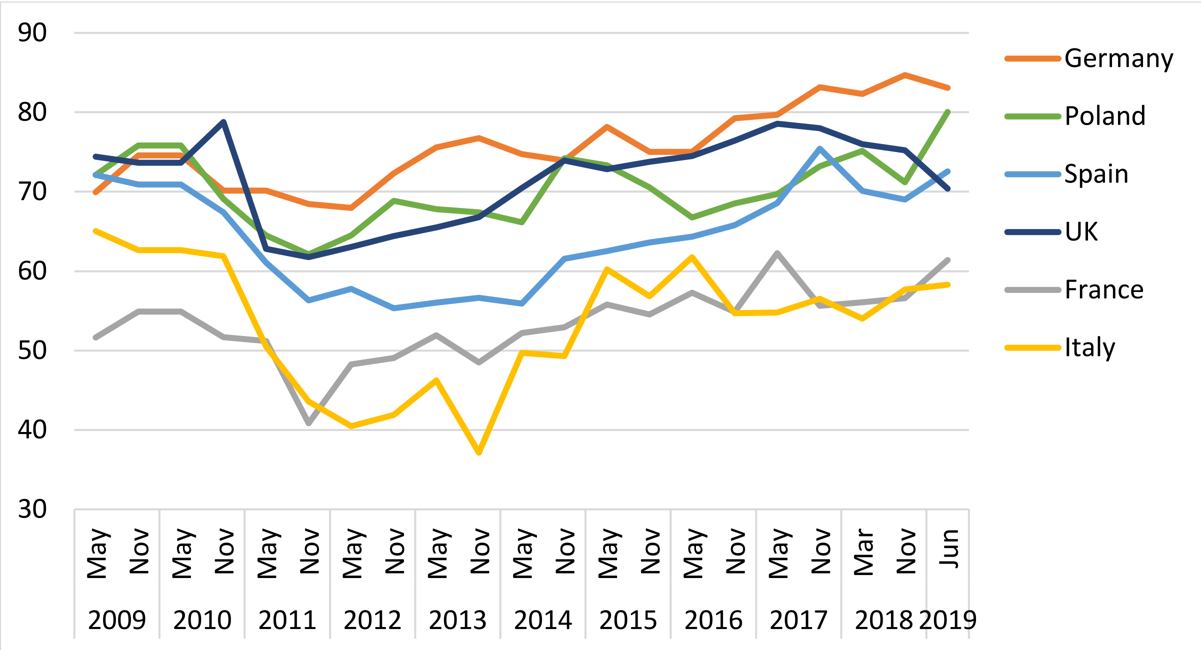
Table 1: Panel regression results – the share of positive response to the statement 'globalisation is an opportunity for economic growth' is regressed on the unemployment rate

	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. 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 six EU's largest countries, Germans view globalisation as a driver of economic growth most positively, with an 83 percent favourable view in 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. 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 have contributed to this decline.

Figure 10: 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 two key aspects of globalisation: free trade and immigration.

3.2 Free trade

Europeans have an overwhelmingly positive view of free trade (the right side of Figure 9): 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.

3.3 Immigration

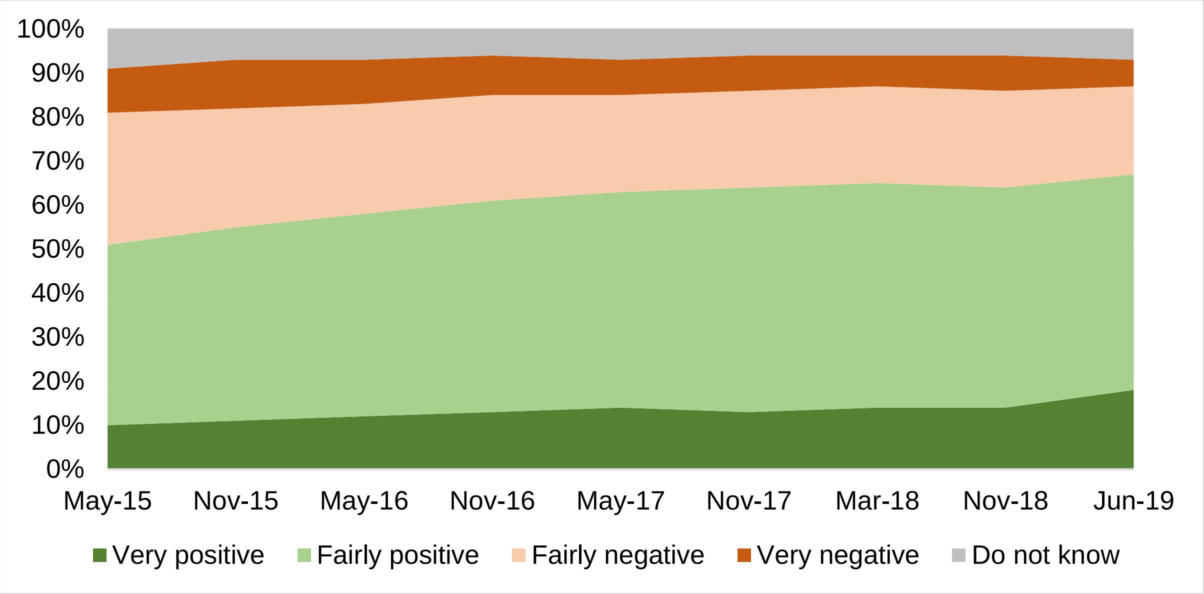
Immigration is a more divisive topic than trade, yet recent trends also indicate greater public support. Immigration still tops the list of challenges of greatest concern to European Union citizens, according to the Eurobarometer surveys, though the share of respondents putting immigration among the 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. However, Europeans are more negative about immigration than people on other continents, as reported by the International Organisation for Migration (2015).

But beyond these generally negative views of immigration overall, Europeans' enthusiasm for the intra-EU mobility of people is relatively high and is rising (Figure 11). 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 June 2019 reaching 67 percent in support, 26 percent against and 7 percent who do not know. If we disregard those who did not answer, 72 percent of EU citizens took 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 75 percent positive and only 7 percent disapproving, while 16 percent regarded it as 'neither good, nor bad' in June 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.

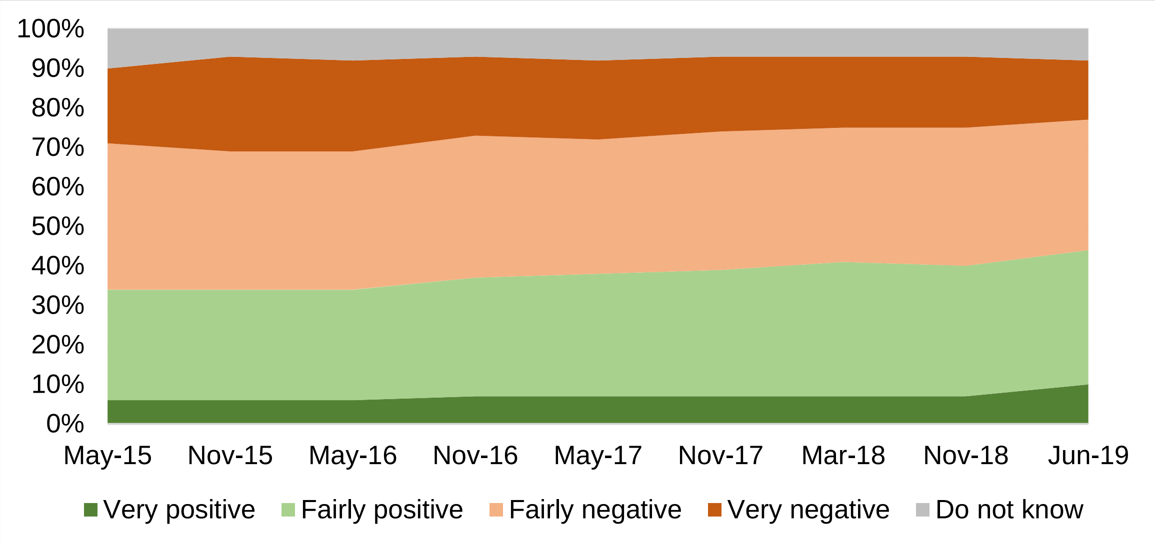
Figure 11: Support for immigration from inside the EU, percent of responses, EU average, 2015-2019



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.

There is less support for immigration from outside the EU, but favourable attitudes towards this also show a slightly increasing trend (Figure 12). 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 44.3 percent (or 48 percent if we consider only those who answered this question) by June 2019. Notwithstanding this increase, however, fewer than half of respondents express a positive attitude to extra-EU immigration.

Figure 12: Support for immigration from outside the EU, percent of responses, EU average, 2015-2019

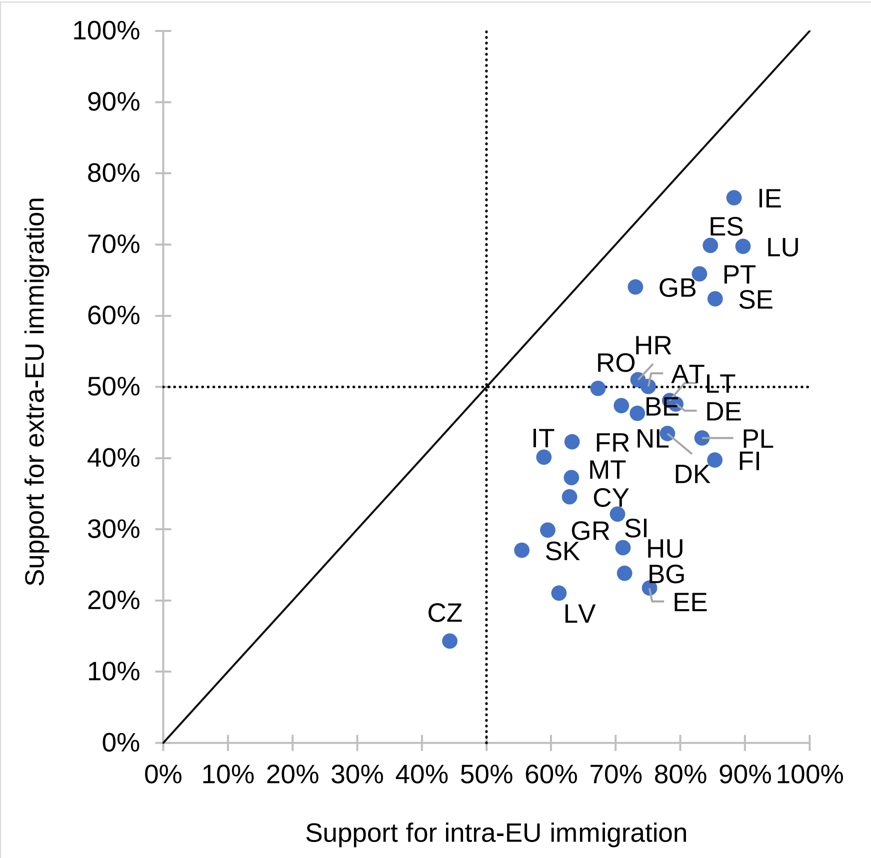


Source: Eurobarometer standard surveys, https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm Note: respondents were asked: "Please tell me whether each of the following statements evokes a positive or negative feeling for you – immigration of people from outside the EU".

Figure 13 compares support for immigration from other EU countries (horizontal axis) and from outside the EU (vertical axis) for each EU country in June 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 also the lowest. Support for extra-EU immigration is also quite low in other central European countries: Latvia, Estonia, Bulgaria, Hungary, Slovakia and Slovenia, and also in Greece. In contrast, support for extra-EU immigration exceeded 60 percent in Ireland, Spain, Luxembourg, Portugal, the United Kingdom and Sweden in June 2019.

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.

Figure 13: Support for immigration from inside the EU vs. immigration from outside the EU, percent of respondents, 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.

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 2). 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 2: 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 suggest 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 is 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, have a positive image of the EU and understand how the EU works also take 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.

4. Policy implications

Globalisation and market integration create winners and losers. O'Rourke (2019) points 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 is 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.

Rodrick (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 doubts 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. But another explanation could be that Europe is on track to put the interests of labour at the centre of its policies, exactly what Rodrick (2018) identified as one of the three most important areas for the rebalancing needed to be able 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)[5]. 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 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 principles[6].

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 recommendation 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 but Romania – this development is in stark contrast to what happened in the United States from the mid-1990s to 2015 (Darvas and Pichler, 2017)[7].

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

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[5] 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.

[6] See the list of the most important concrete social legislations 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

[7] Darvas and Pichler (2017) also calculate 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).

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. Between 2006 and 2017, it fell in eight EU countries, remained broadly unchanged (change between plus/minus 1 Gini points) in nine, and increased in 10[8]. 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 the 28 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.

Beyond 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 have likely boosted the populist backlash, as analysed by Batsaikhan *et al* (2018). Yet even if EU member states 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 2019[9]. 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 reduced and this issue is not in the news so much: while in 2015, 1.3 million people applied the first time for asylum 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 do not only defy the global tendency towards deglobalisation, but in fact support for globalisation, free trade and immigration among citizens is on the rise. 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 a weaker economic outlook. In these countries the support for globalisation is lower than in countries having better economic developments. With global and European economic growth slowing and the risk of a European recession increasing, unemployment tensions could re-emerge. EU institutions should continue to press EU countries to make greater efforts to tackle social problems, including through better measures to support the losers from globalisation and to offer lower-income families better

[8] Data source: Eurostat's 'Gini coefficient of equivalised disposable income - EU-SILC survey [ilc_di12]' dataset.
[9] Source: Eurobarometer surveys.

opportunities. Meanwhile, more progressive taxes and more wealth and inheritance taxes could create the financial resources to improve public services and to reduce social inequalities.

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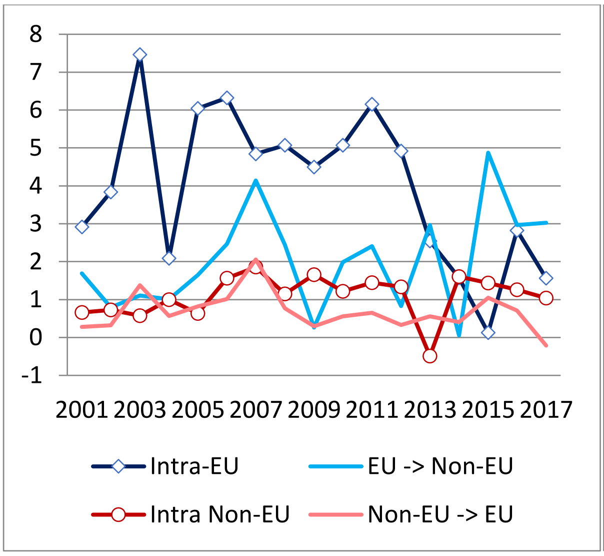
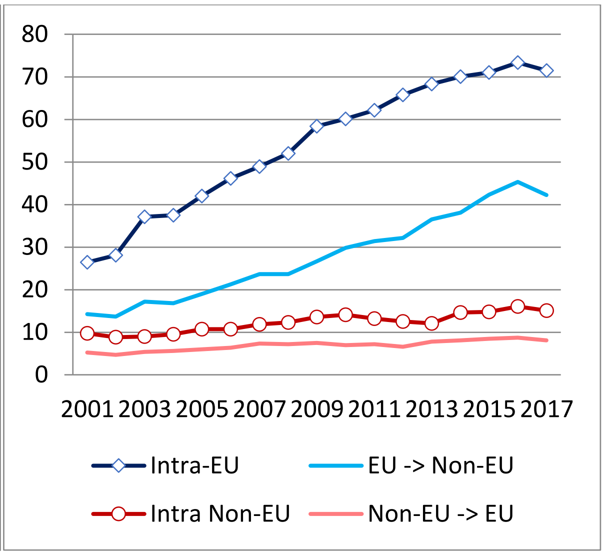
Figure 14: Composition of intra- and extra-regional capital flows and foreign assets (percent of GDP), 2001 – 2017

I: Foreign direct investment

(A) Gross capital outflows

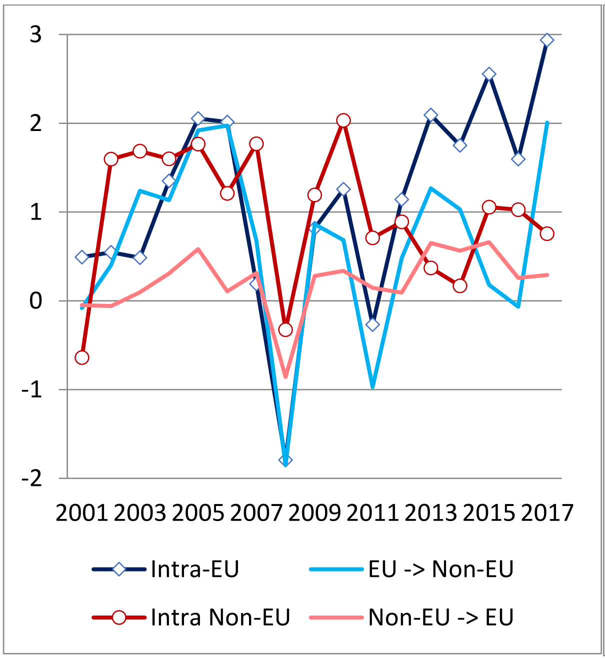


(B) Gross foreign assets

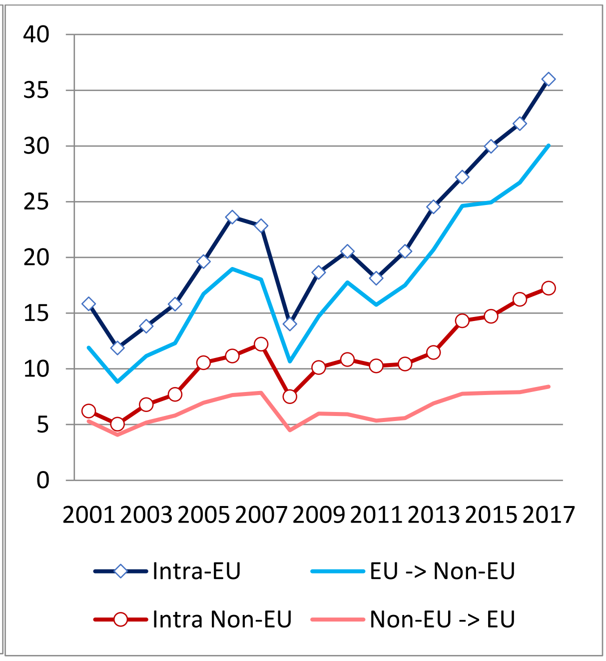


II: Portfolio investment - equity

(A) Gross capital outflows

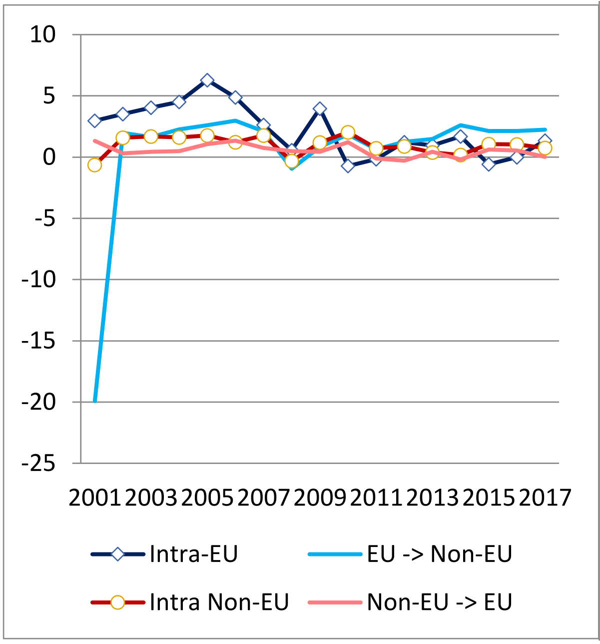


(B) Gross foreign assets

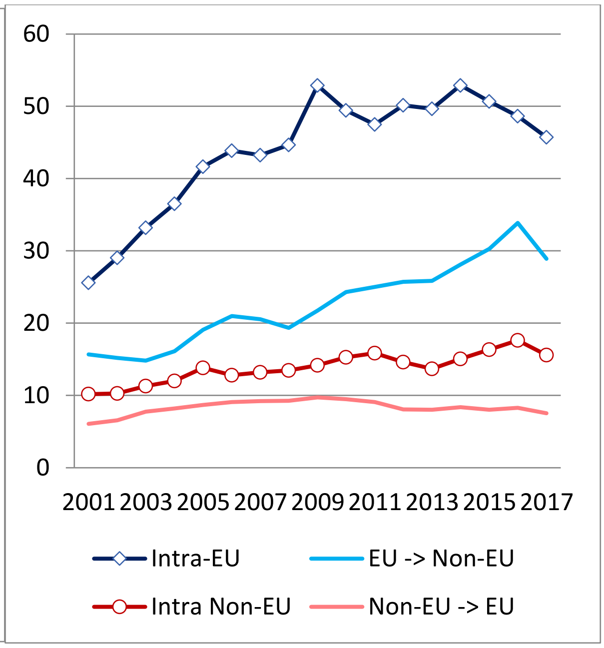


III: Portfolio investment - debt

(A) Gross capital outflows

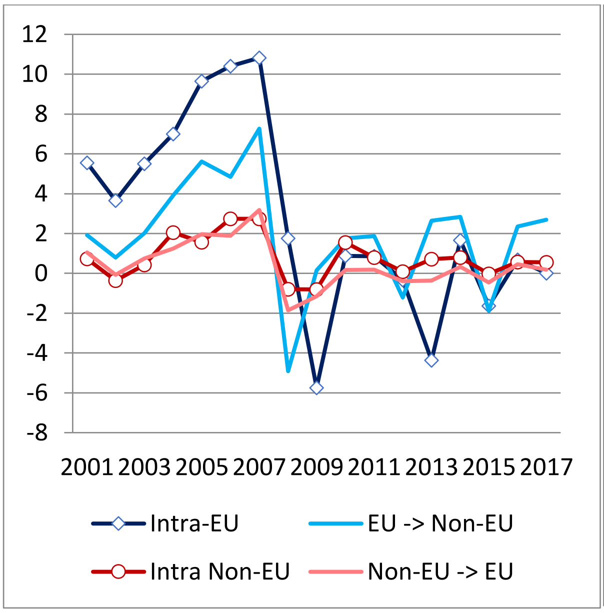


(B) Gross foreign assets



IV: Other investments

(A) Gross capital outflows



(B) Gross foreign assets