Globalisation patterns in trade and investment - introduction

Statistics Explained

Globalisation patterns in EU trade and investment is an online Eurostat publication presenting a summary of recent European Union (EU) statistics on economic aspects of globalisation, focusing on patterns of EU trade and investment. It provides information to describe patterns of 'economic globalisation' from a business perspective, analysing exchanges between traders and patterns of behaviour within and between enterprises.

Having provided a brief introduction to 'economic globalisation', European policy developments and a set of background information relating to the statistics used within this online publication, the first chapter presents a set of international comparisons (*Chapter 1*) which provide the context for the remainder of the publication, comparing the EU with other major economic powers, including China, Japan and the United States; thereafter, the analyses are essentially concentrated upon developments experienced by the EU and its Member States. The subsequent chapters are structured largely according to the different domains used within official statistics. As such, *Chapter 2* presents information on international trade in goods; it is followed by complementary information on international trade in services (*Chapter 3*). After a presentation of developments for international flows of goods and services, *Chapter 4* analyses movements of capital through foreign direct investment (whereby an entity in one economy seeks to obtain a lasting interest in an enterprise that is resident in another). The penultimate chapter expands on the information presented for foreign direct investment by providing an analysis of the structure and conduct of foreign affiliates (*Chapter 5*).*Globalisation patterns in EU trade and investment* closes with a disparate collection of evidence from a range of pilot statistical studies that are designed to capture changes in business models that may be linked to the globalisation phenomenon (*Chapter 6*).

Note that this online publication does not aim to measure the costs or the benefits associated with globalisation. Equally, it does not extend beyond an analysis of trade and investment transactions, into other domains which may be impacted by globalisation, such as: social impacts — for example, economic migration, income distribution or wage developments; financial flows; the application of information and communication technologies; environmental impacts; or geopolitical aspects.

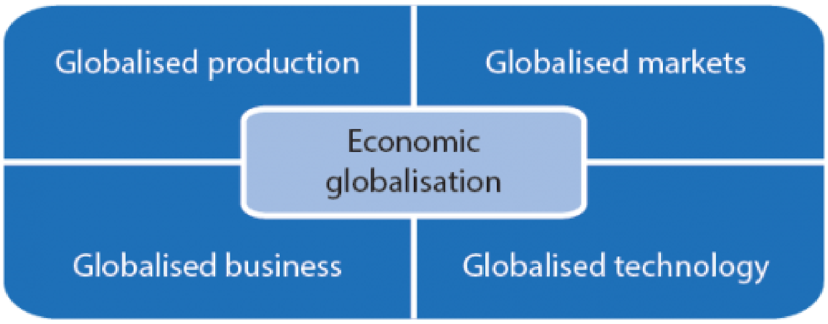
Defining globalisation

The Council of Europe defines globalisation as: '*... the ever closer economic integration of all the countries of the world resulting from the liberalisation and consequent increase in both the volume and the variety of international trade in goods and services, the falling cost of transport, the growing intensity of the international penetration of capital, the immense growth in the global labour force, and the accelerated worldwide diffusion of technology, particularly communications.* '

Historically, most economists subscribed to the view that there are positive gains from globalisation. These views are essentially based on Ricardo's theory of comparative advantage in international trade (1817), whereby countries should favour exporting those goods and services which they can produce relatively more efficiently than their competitors, thereby resulting in an expansion of economic output, more competitive economies, the creation of new jobs and lower prices.

However, it was not until the 1980s and 1990s that the spotlight was thrown onto globalisation, as a number of significant changes aligned to provide the impetus for considerable change. During this period, globalisation became synonymous with the promotion of free trade — based on the removal of tariff and non-tariff barriers — and the deregulation of various markets, in particular, financial deregulation. Around the same time there were a series of geopolitical changes — such as the end of communism, the unification of Germany, or the opening-up of China — all of which provided a further stimulus towards the development of a truly globalised economy. Furthermore, the rapid introduction of new information technologies considerably lowered the costs of communication and increased exponentially the exchange of information. All of these changes impacted upon the way that multinational enterprises behaved, with many increasing their levels of international trade, investment and capital flows. As a result, some manufacturing activities (re)located from industrialised economies to (lower cost) transition economies in eastern Europe and emerging economies like Brazil, Russia, India or China (BRICs), followed later by others. Alongside the physical relocation of their output, there were also significant changes in the way that some multinational enterprises were structured, as the role of low tax offshore financial centres became increasingly important.

Economic dimensions of globalisation

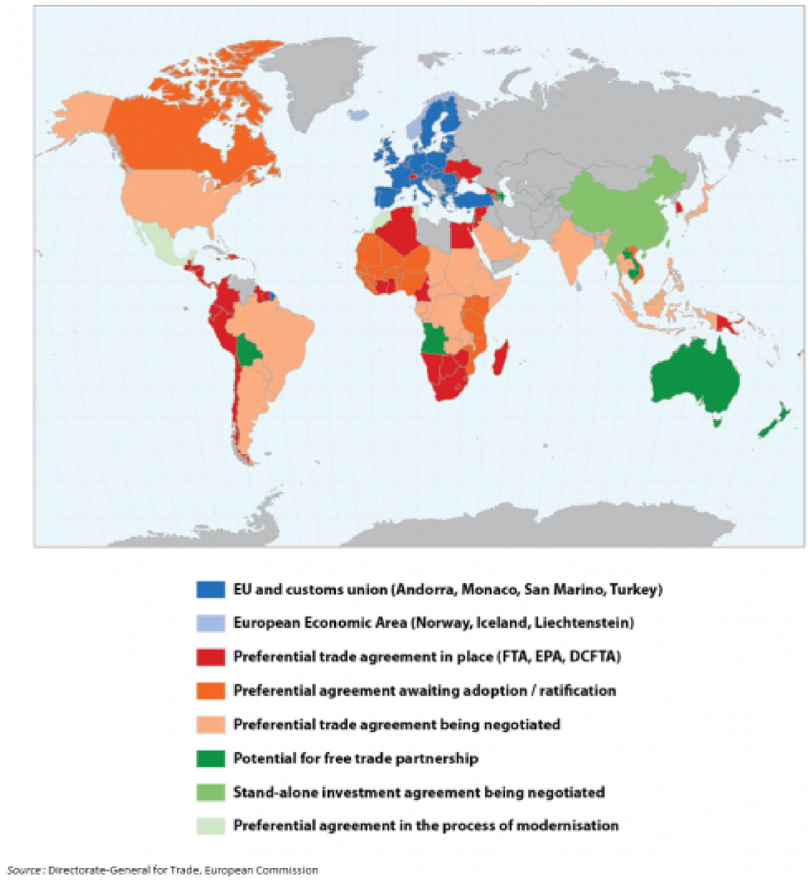


As such, globalisation is a broad, multifaceted phenomenon that impacts on businesses, governments, politics, cultures and societies, and has been (dis)credited with a wide range of effects. Some would argue that globalisation has, among other influences, resulted in: the world becoming a richer place; with wider access to larger and more diverse markets; higher living standards (especially in emerging economies); widespread adoption of new technologies; lower prices and greater choice for consumers; greater availability of information leading, for example, to improved human rights. Others may counter that globalisation has, among others, led to: a widening of income inequality (as some people and regions are less adaptable to change and competition than others); increased pressure to lower wages as well as health, safety and other standards in order to gain a competitive advantage; a transfer of power from national governments to multinational enterprises; greater risk of international financial crises due to volatility in capital flows, financial contagion and asset price bubbles; a loss of cultural diversity; or negative environmental impacts.

EU international trade and investment policies

The EU has a common international trade policy, often referred to as the common commercial policy. In other words, the EU acts as a single entity on international trade and investment issues, with the European Commission negotiating on behalf of its 28 Member States. Article 206 of the Treaty on the functioning of the European Union (TFEU) specifies that the common commercial policy should contribute to '*the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers* '.

To strengthen its international trade relationships, the European Commission has highlighted its desire to complete the Doha round of multilateral trade negotiations launched by the World Trade Organisation (WTO) , but also to conclude a wide range of bilateral free trade agreements. Indeed, the EU is currently negotiating more than 20 separate trade agreements.



Map 1: The state of EU trade agreements and trade negotiations Source: Directorate-General for Trade, European Commission

In May 2017, the European Commission presented five papers linked to the *Future of Europe* , one of which concerned a *Reflection paper on harnessing globalisation* (COM(2017) 240 final). This made a range of proposals linked to issues such as tax evasion, government subsidies, social dumping and trade defence instruments, alongside the creation of a multilateral investment court. The paper also addressed ideas to mitigate the negative impacts of globalisation, for example: protecting and empowering citizens; providing lifelong education and training support; promoting progressive tax policies and encouraging a more equitable distribution of wealth; investing in innovation; using the EU's structural funds to assist vulnerable regions; using the European Globalisation Adjustment Fund (EGF) to help displaced workers find another job.

In September 2017, the European Commission unveiled a new trade package, which included:

- a *Report on the implementation of the trade policy strategy Trade for All — Delivering a Progressive Trade Policy to Harness Globalisation* (COM(2017) 491 final);
- a Communication *A Balanced and Progressive Trade Policy to Harness Globalisation* (COM(2017) 492 final);
- a Communication *Welcoming Foreign Direct Investment while Protecting Essential Interests* (COM(2017) 494 final).

The latter recognised concerns about foreign investors taking over European enterprises, especially when these relate to strategic technologies/activities, while EU investors are sometimes prevented from enjoying the same rights if they wish to invest in non-member countries. To provide assurances to EU citizens and industry, the Communication outlines a proposal for screening certain types of foreign direct investment in the EU (on the grounds of security and public order) in order to deter unfair practices.

The other Communications in the trade package outlined a set of new initiatives, while underlining the EU's commitment to building an open, sustainable, rules-based global trade and investment system, subject to European values and interests, while upholding the work of the WTO. Indeed, recent settlements — such as those concluded with Canada and Japan — show the potential for progressive trade agreements to create mutually beneficial outcomes, strengthening global governance and harnessing globalisation.

Challenges for statistics in a globalised world

In practice, most indicators for measuring economic globalisation from the EU's perspective are provided by members of the European statistical system (ESS) and the European System of Central Banks (ESCB) in accordance with regulations such as those applying to national accounts , the balance of payments , foreign direct investment and international trade in services , international trade in goods , structural business statistics and foreign affiliates statistics .

That said, official statistics were originally developed to measure relatively closed economies where most of the economic activity, with the exception of international trade in goods, took place within regional and national markets; these statistics were based on the nation state as a reporting entity.

With increasing levels of internationalisation and globalisation, there have been a range of challenges/demands placed on statistical systems both in relation to measurement and interpretation issues. Indeed, the freedom with which goods, services, capital and people can circulate within the EU and around the world has led to a reassessment of traditional statistical surveys and indicators, as these may no longer reliably take account of international and intra-enterprise flows. As such, statisticians and policymakers have worked together to modify data collection methods with the aim that these should capture more clearly the ways in which multinational and international enterprises do their business, allowing changes in economic models to be more reliably measured. Some of the main issues include:

- considering that goods may no longer be designed, manufactured, assembled nor marketed in a single country, but rather through global value chains;
- adjusting national statistical frameworks that developed over decades so they remain relevant for assessing multinational enterprises operating in a 'borderless' business world;
- considering how to capture the sizeable flow of intangible assets, for example, how R &D and technological know-how passes through EU borders or how the digital economy allows the coordination of complex activities and sales to consumers with no restrictions linked to physical location;
- considering the possible impact of multinational enterprises restructuring on macroeconomic aggregates, in particular for small open economies;
- bearing in mind how to take account of changes in direct investment behaviour, especially the increasing role of special purpose entities (SPEs) , which give rise to increased complexity for inter-enterprise dealings within multinationals.

Issues such as those detailed above have driven statisticians to review data sources and methods for measuring global production. This work is carried out in consultation with EU Member States and international partners, including, the European Central Bank (ECB) , other parts of the European Commission (EC) , the United Nations Statistical Division (UNSD) , the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) .

Methodological notes

Globalisation patterns in EU trade and investment is based on data that was extracted in May and June 2017, largely from Eurostat's online database ; the information is derived from a wide range of surveys and data collection exercises. As a result, there may be differences concerning the latest available reference year for each source, as data for some are more quickly available than for others. Note also that the online database may have fresher data due to the continuous nature of data collection and processing resulting in updates and new reference periods being added throughout the year.

Spatial and temporal data coverage

The EU-28 aggregates that are provided include information for all of the EU Member States or estimates for missing information; any incomplete totals that are created are systematically footnoted. Time series for these geographical aggregates are based on a fixed set of Member States for the whole of the time period (unless otherwise indicated) — any time series for the EU-28 refers to a sum or an average for all 28 current Member States regardless of when they joined the EU.

As the EU-28 is generally treated as a single trading bloc, the information presented relates to its trade and investment with the rest of the world (extra-EU flows) and excludes any trade and investment between EU Member States (intra-EU flows). The value of trade and investment flows between EU Member States has therefore been subtracted from global aggregates in order to maintain coherency when analysing, for example, shares in world trade.

The first chapter of this online publication provides data for the EU-28 aggregate, considering its trade and investment patterns with extra-EU partners. The EU-28 is contrasted with a number of international competitors, namely: Australia, Brazil, Canada, China, Hong Kong, India, Japan, Mexico, Russia, Singapore, South Africa, South Korea, Turkey, the United Arab Emirates and the United States. Note that statistics presented for China are systematically excluding Hong Kong (which is shown separately), unless otherwise stated.

Within the remainder of the publication, statistics are shown for the EU-28 aggregate and the 28 individual Member States; data are also shown for the EFTA countries of Iceland, Liechtenstein, Norway and Switzerland (when available/if applicable). In these remaining chapters , analyses of trade and investment by partner are based on a fixed list of countries: Argentina, Australia, Brazil, Canada, China, Egypt, Hong Kong, India, Indonesia, Israel, Japan, Malaysia, Mexico, Morocco, Nigeria, Norway, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates and the United States; for international trade in services and foreign direct investment an additional partner has been included, namely, offshore financial centres[1]; note that information for Hong Kong and Singapore is shown separately and hence these two countries are excluded from the offshore financial centres aggregate in this publication (to avoid double-counting).

The geographical descriptions used to group EU Member States, for example, 'northern', 'eastern', 'southern' and 'western' are not intended as political categorisations. Rather, these references are made in relation to the geographical location of one or more EU Member States, as listed within the geography domain of Eurovoc, the European Commission's multilingual thesaurus . The northern Member States are often further distinguished between the Baltic Member States (Estonia, Latvia and Lithuania) and the Nordic Member States (Denmark, Finland and Sweden).

If data for a reference period are not available for a particular country, then efforts have been made to fill tables and figures with data for previous reference years (these exceptions are footnoted). Generally, an effort has been made to go back at least two reference years, for example showing data for 2014 or 2015 for those countries (or geographical aggregates) for which 2016 data are not yet available.

Eurostat data

Eurostat's data are published with accompanying metadata that provide background information on each source, as well as specific information (flags). These flags provide information pertaining to the status of the data for individual data cells, for example, detailing whether data are estimated or provisional. Many flags on data status have been converted into footnotes which appear with each figure or indicated though the use of an*italic font* in tables. In order to improve readability, only the most significant information has been included as footnotes under the tables and figures. In tables, the following formatting/symbols are used, as necessary:

Breaks in series are indicated, as appropriate, in the footnotes provided under each table or figure.

International data

The indicators presented are often compiled according to international — sometimes global — standards, for example, United Nations' standards for national accounts and the International Monetary Fund's standards for balance of payments statistics. Although most data are based on international concepts and definitions there

[1]The full list of offshore financial centres includes: Andorra, Antigua and Barbuda, Anguilla, Aruba, Barbados, Bahrain, Bermuda, Bahamas, Belize, Cook Islands, Curaçao, Dominica, Grenada, Guernsey, Gibraltar, Hong Kong, Isle of Man, Jersey, St Kitts and Nevis, Cayman Islands, Lebanon, Saint Lucia, Liechtenstein, Liberia, Marshall Islands, Montserrat, Mauritius, Nauru, Niue, Panama, Philippines, Seychelles, Singapore, Sint Maarten, Turks and Caicos Islands, Saint Vincent and the Grenadines, British Virgin Islands, US Virgin Islands, Vanuatu, Samoa. For the purpose of this online publication, information for Hong Kong and Singapore is shown separately and hence these two countries are excluded from the offshore financial centres aggregate.

Italic font	data value is estimated or provisional (and is hence likely to change);
billion	a thousand million;
trillion	a thousand billion;
:	not available, confidential or value of low reliability;
–	not applicable.

may be certain discrepancies in the methods used to compile the data.

Many of the international sources that were used in the first chapter present monetary data in national currencies and/or United States dollars (USD), whereas Eurostat data are normally presented in national currencies and/or euro (EUR) . Monetary data for international partners from the rest of the world have been converted into euro using annual average exchange rates.

Several indicators have been standardised by expressing their values relative to an appropriate measure of the size of a country, for example, in relation to the size of the economy (GDP). Where necessary, these size measures have been extracted from the United Nations Statistics Division.

Eurostat's online database

The online data code(s) below each table and figure helps users to locate the freshest data available, through codes such as tps00001 and nama_10_gdp. In the PDF version of the publication, readers are directly led to the freshest data when clicking on such data codes (provided in the form of hyperlinks), while in the paper publication, the freshest data can be accessed by typing these codes into the 'Search' utility which is found in the upper-right corner of Eurostat's homepage .

Eurostat's online glossary

Many terms and abbreviations in this online publication are linked to the glossary pages of Eurostat's Statistics Explained website .

Where to find more information?

The simplest way to find more information on the broad range of topics that appear within *Globalisation patterns in EU trade and investment* is through Eurostat's website . It provides users with free access to data, publications and methodologies. The website is updated daily with the latest and most comprehensive statistical information available on: the EU-28 and the euro area, the EU Member States, EFTA countries, candidate countries and potential candidates.

External links

For more information concerning international trade relationships between the EU and its partners, please refer to the European Commission's Directorate-General for Trade website .

View this article online at *http://ec.europa.eu/eurostat/statistics-explained/index.php/Globalisation_patterns_in_trade_and_investment_-_introduction*