

Reflection paper on harnessing globalisation

SUMMARY

Globalisation is nothing new; it is centuries old and has always contributed significantly to boosting growth and creating employment. It goes beyond the mere circulation of commercial goods, and more recently services, as it is a way to exchange ideas, spur discovery and innovation, and increase competitiveness. However, for some, globalisation is synonymous with unfair trade practices, job losses and the offshoring of firms, and there has recently been a backlash, culminating in the failure of multilateral trade agreements. Calls for protectionism are all the while growing louder.

As part of its wider exercise to modernise the EU, which is now centred on the white paper on the future of Europe, the Commission published a reflection paper on harnessing globalisation in May 2017. The paper identifies both an acceleration and a transformation of globalisation, making it unescapable, and the Commission therefore strongly supports keeping markets open. Nevertheless, it also advocates shaping globalisation in order to spread core European values, such as human rights.

The EU's external response should be based on international cooperation, economic diplomacy and ensuring a level playing field. The policy areas covered would range from trade to environment, and from sustainable development to investment. In parallel, the EU's internal response would aim to increase resilience through improved sharing of the benefits of globalisation, and promoting European industry's long-term competitiveness. Reinforcement of the internal market and using the European Semester for improved coordination of economic policies is also advocated in connection with harnessing globalisation, as is targeted support for regions.

This briefing is one of a series on the European Commission's reflection papers following up the March 2017 White Paper on the Future of Europe.



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The white paper process

The reflection paper on harnessing globalisation is one of five papers announced by the Commission in the 2017 [white paper](#) on the future of the Europe and beyond. The origin of this general reflection process, which began following the profound effect of the financial crisis and the sovereign debt crisis on the EU, lies in the debate on how to stabilise the European economy in general, and that of the euro area in particular, and how to return to growth and employment.

The more recent [debate](#) on the deepening of [economic and monetary union](#) (EMU) is based on a number of documents, such as the Commission's [Blueprint for a deep and genuine economic and monetary union](#) and the Four Presidents' Report [Towards a genuine economic and monetary union](#), both from 2012. They were presented at a time when the world-wide financial crisis was already on the wane, but the European sovereign debt crisis was at its most intense, with no end in sight. These papers were followed in 2015 by the Five Presidents' Report: [Completing Europe's economic and monetary union](#). Concrete proposals for reforming EMU were then expected from the Commission, but rather than limiting itself to economic and monetary matters, the white paper on the future of Europe and beyond took a more global approach. It specifically announced five reflection papers covering the following topics: (1) [developing the social dimension of Europe](#); (2) [deepening economic and monetary union](#), on the basis of the Five President's Report; (3) harnessing globalisation; (4) [the future of European defence](#); and (5) the [future of EU finances](#).¹ Unexpectedly, the 2017 white paper did not propose concrete solutions, but rather offered five scenarios for Europe by 2025: (1) carrying on, in which the EU 27 would stick to its course, and focus on implementing and upgrading its current reform agenda; (2) concentrating on nothing but the single market, of which certain key aspects would be deepened; (3) allowing some countries to do more, with several clusters of 'coalitions of the willing' doing more on specific policy areas; (4) doing less more efficiently, where the EU 27 would focus its attention on a reduced number of policy areas; and (5) doing much more together, in which Member States would decide to share more power, resources and decision making.

The aim of the white paper and the reflection papers is to encourage the Member States to give the Commission a mandate for further action. When drafting these papers, the Commission's intention was to announce possible further steps in the European Parliament during President Juncker's State of the European Union speech in September 2017. This was to be followed by practical steps to be taken before the end of the current Commission's mandate in 2019.

Reflection paper on harnessing globalisation

The [reflection paper on harnessing globalisation](#) was published on 10 May 2017. It notes that the European economy, businesses and citizens benefit immensely from globalisation. It states that globalisation, together with technological change, is and will continue transforming citizens' lives at a pace never witnessed before, and that this process is accompanied by friction. The Commission takes the view that rather than remaining passive while globalisation shapes our future, the EU should seize the opportunity to shape globalisation according to European values and interests.

Globalisation, its evolution and effects

The Commission emphasises that, rather than being a new phenomenon, globalisation is centuries old, and is spurred by the will to discover new people and places, to be exposed

to new ideas, and to access new goods. Traditionally, globalisation used to be driven by trade in goods and by capital flows. Today, new factors such as the rise of the internet, a huge cross-border exchange of data, and the increasingly ubiquitous global supply chains, thanks to which most products are no longer made in just one country, have added new dimensions to globalisation. Furthermore, the globalisation process is accelerating. Emerging economies are also contributing to extending the geographical reach of globalisation. At the same time, the Commission identifies a growing number of transnational challenges, such as migration flows, terrorist threats, health pandemics and climate change, which demand worldwide cooperation.

The reflection paper goes on to list globalisation's many advantages, such as the possibility to travel, learn and live in different countries, and interact on the web. Countries can exploit economies of scale, and entrepreneurial creativity is stimulated, innovation accelerated, and competitiveness increased. New technologies and cheaper input also increase the competitiveness of European companies, which results in jobs being kept rather than shed. Foreign direct investment and technological transfer have benefited companies and gaps in the workforce have been filled with people from outside the EU. Likewise, imports have increased consumer choice and lowered the price for goods and services, which has been particularly beneficial for households with lower incomes. The Member States that are most integrated in global supply chains are more likely to offer higher incomes and record a lower level of social inequality. Outside Europe, globalisation has helped poorer countries to catch up, and millions of people to be lifted out of poverty. This in turn has increased stability, democracy and peace.

However, the Commission also lists globalisation's challenges and downsides. The benefits are not equally spread among citizens and regions. This is often on account of foreign countries competing with lower wages, environmental requirements and taxes, or using unfair trade practices such as dumping. Some countries profit from their competitors' openness, while still protecting their own markets, thus failing to provide an equal playing field. This has often resulted in the closure of companies, in lost jobs, and in pressure on working and pay conditions. In addition, there is resentment that large firms can exploit loopholes in international taxation regimes by shifting profits to low-tax jurisdictions. Globalisation, combined with technological change, may be particularly advantageous for skilled labour, but has reduced job opportunities for the lower qualified. Although legal immigration has helped the EU overcome its labour market shortages, it has sometimes led to social tensions and marginalisation, occasionally resulting in radicalisation.

The reflection paper also draws attention to the stagnation of real incomes of middle-class households, both in and outside the EU. Many citizens associate globalisation with a threat to their traditions and national identities and fear for the next generations' future, eventually losing faith in the government's will and capacity to shape events.

The Commission then points to the fact that globalisation is not only accelerating, but that its nature is also changing. Future drivers of globalisation will include digitalisation, robots, artificial intelligence, the internet of things, and 3D printing. The increased use of robots will diminish labour costs as a decisive factor for locating, or re-locating production, while simple and repetitive parts of the production process will be automated, thus displacing parts of the workforce. Although a number of jobs previously moved to foreign countries will be repatriated, they will often be of a different kind, requiring a different type of workforce. Even the smallest company will be able to engage in cross-border trade thanks to e-commerce, but the power of large on-line actors helps

to propel them into dominant positions, something that is facilitated by their broad access to personal data. Privacy issues and data protection will become important topics as a result of globalisation, as will threats to cybersecurity. Criminals and terrorists will try to use the openness and the new technologies to their advantage.

Calls for protectionism rebuffed by the Commission

The downsides of globalisation have led to calls for protectionism and spurred isolationist tendencies, impacting a number of multilateral trade negotiations that were aimed at opening up markets (such as the [Transatlantic Trade and Investment Partnership](#) (TTIP) and the [Trans-Pacific Partnership](#) (TPP)). Attempts are being made to reduce imports, limit immigration and favour domestic production, including in one of the world's largest countries, which was until recently known to be a strong proponent of free trade. The reflection paper strongly favours keeping international markets open, and stresses the short-lived positive effects of protectionism, as compared with the long-term detrimental effects, as a result of which all would be losers. Protectionism provokes retaliation, disrupts production, increases costs, deteriorates competitiveness and therefore puts more jobs at risk. Access to new products, services, technologies and ideas would be lost. Prices for consumers would increase, with the poorest hit hardest.

Rather than listening to the siren song of protectionism, the Commission advocates a common, international approach, based on rules and multinational institutions. It deems collective action necessary in fields such as the global economy, climate change and tax avoidance. There should be both an external and an internal response.

Europe's external response

The Commission advocates a fair international rules-based order, and expects to reach high standards through cooperation between countries. The explicit aim is to link the means of globalisation, such as the opening of markets, with its ends, the spread of rights and human well-being. It relies on a number of existing international agreements and organisations, such as the [World Trade Organization](#) (WTO), the [Sustainable Development Goals](#) (SDGs) agreed by the UN in 2015, the [Paris Agreement to fight climate change](#), and various international actions to regulate financial markets and fight tax avoidance. However, it also points to a number of areas that are not yet covered by international agreements or in which no level playing field exists, such as the digital economy, corruption, harmful government subsidies and social dumping. The Commission would like to strengthen economic policy coordination and, where necessary, reform multilateral institutions. If that cannot be done at global level, it should be initiated by smaller groups of countries, while leaving the door open for others to join.

The Commission also intends to actively defend European interests and values in developing countries. The [European consensus on development](#) adopted in June 2017 is a blueprint aligning the EU's development policy with the [2030 agenda for sustainable development](#). An [EU external investment plan](#) would foster sustainable growth and jobs inside developing countries, thus creating a win-win situation, and also help reduce migratory pressure.

European [economic diplomacy](#) is another field that the Commission would like to develop further by improving the coherence of external policies between the EU and Member States as well as institutions including the [European Investment Bank](#) (EIB). The aim could be to support macroeconomic stability, fostering economic and social reforms, or reducing market access barriers. Strategic pan-European commercial products could be promoted, international standards could be set, and European business organisations

operating abroad could be strengthened. The Commission highlights the following ideas: developing a balanced, rules-based and progressive trade and investment agenda, further focusing on international economic and financial rules, and promoting labour standards. Other fields would also need to be covered, such as pollution and the depletion of natural resources. Cultural diplomacy would also be stepped up. In all these fields it is important that Europe learn to speak with one voice.

Particular problems arise where rules exist but are not respected, and where loopholes exist. Strong enforcement of the EU's own rules is advocated. Existing agreements should be better enforced, including those on stopping the import of counterfeited or dangerous goods, as well as on the protection of international investments, which could be achieved through a multilateral investment court. Effective trade defence instruments are needed to counter dumping, and access to international public procurement markets should be based on reciprocity, something that could be fostered through the proposed [international procurement instrument](#). A close eye needs to be kept on foreign direct investment targeting key EU technologies, especially when this is being carried out by state-owned enterprises. A common EU list of non-cooperative jurisdictions is being drawn up to increase global tax justice and transparency.

Europe's internal response

In its internal response the Commission follows a multi-pronged approach, ranging from better re-distributional aspects to the strengthening of industry. However, as most of the key policy tools are in the realm of the Member States, national governments will often be the ones tasked with making the necessary changes. These comprise for example the provision of education and training, the funding of research and development, and active labour market policies and instruments to assist workers. Regions will also have to play a role, and are encouraged for instance to explore cluster policies and engage in smart specialisation.

The benefits of globalisation are widely spread while the costs are borne more locally, by the industrial branches, specific regions, rural communities, or countries that bear the direct impact. A better distribution of wealth is therefore advocated, and investment should be geared towards the social inclusion of more vulnerable categories. The [European pillar of social rights](#) is intended to address these aspects. Lifelong learning, a modern labour market, adequate employment security, income replacement and safety nets for those workers going through transitions need to be put in place. Member States' approaches to social issues should be coordinated, and the [European structural and investment \(ESI\) funds](#) should play a role, especially to support the regions. Since its creation in 2007, the [European Globalisation Adjustment Fund](#) (EGF) has helped workers displaced by globalisation find new jobs, and the Commission is therefore keen to see the instrument improved.

The reflection paper insists that policies in favour of industry cannot keep enterprises on artificial life support, but need to modernise them. The focus is on (1) innovation; (2) investment, including developing critical infrastructure; (3) sectoral policies, including the transition towards a digital, decarbonised and more circular economy; and (4) regulation and taxation, where the regulatory environment would be made simpler, and action taken to ensure that taxes are paid where profits are made. Key elements are the reinforcement of the [single market](#) to boost business, and consistent use of the [European Semester](#) to achieve policy coordination in the EU.

The Commission concludes that globalisation can be beneficial when properly harnessed. Its reflection paper provides a roadmap on how this can be done, both internally and externally, as a joint endeavour between the EU and its Member States.

Position of EU institutions

The European Parliament discussed the position paper on harnessing globalisation in plenary on 16 May 2017. Many speakers participated, but no formal resolution was adopted following the [debate](#).² In general, MEPs [supported](#) the Commission's approach, and several called for efforts to avoid a race to the bottom in terms of social standards. A number of MEPs were completely opposed to the concept of globalisation, while others embraced it, pointing to the benefits of trade and open economies. Many also supported efforts to create a fairer tax system at international level and joined the Commission's call to shape globalisation actively.

Parliament's general position concerning open markets and protectionism was repeatedly made clear, including in the Verhofstadt [resolution](#) on possible evolutions of and adjustments to the current institutional set-up of the European Union, which was adopted in plenary on 16 February 2017. It states that the European Parliament 'believes that the EU must reject the attempts to return to protectionist national politics, and should continue to be an open economy in the future; warns that this cannot be achieved by dismantling the social model'. That same week Parliament had already [consented](#) to the conclusion of the [EU-Canada Comprehensive Economic and Trade Agreement](#) (CETA) by a large majority.

The Council, which acknowledged the reflection paper on globalisation in its [conclusions](#) of 11 May 2017 (Foreign Affairs Council), has to date not established a substantive position on it.

Way forward

The files covered by the reflection paper on globalisation are very broad in two ways. First, the topics covered by the external and internal responses are very wide ranging, and effectively touch upon most of the EU's policy areas. Second, this reflection paper is only one part of the general reflection process the Commission intended to ignite with the white paper. The Commission would like to start the decisive phase of the debate on the future of Europe with the annual state of the Union address, which its President will deliver to Parliament on 13 September 2017. It is said that the Commission's President would prefer the white paper's fifth option, *doing much more together*, but that is also an option that would require Treaty change.³

There are a number of variables that frame the process and that have to be taken into account. Economic realities can be restrictive; the scope of what can and cannot be done at EU level is limited mainly by the EU Treaties; and the willingness of both governments and public opinion to accept changes such as the transfer of sovereignty to EU level may further restrict the number of viable options. Meanwhile, the increased clout of anti-European parties, at both national and European levels, does not make it easier to reach a consensus concerning the best way forward.

Main reference

[Trade for all, towards a more responsible trade and investment policy](#), European Commission, October 2015.

Endnotes

- ¹ Links to the reflection papers can be found here: [The social dimension of Europe](#), [Deepening of the economic and monetary union](#), [Harnessing globalisation](#), [The future of European defence](#), [The future of EU finances](#).
- ² MEPs speak in their own capacity during plenary debates. A debate in committee or plenary does not define Parliament's position, but it can give an indication on where the institution's position may be heading. Ultimately Parliament's view is expressed through the adoption by majority vote of a formal text.
- ³ The necessity of Treaty change was acknowledged in the Verhofstadt [resolution](#) on possible evolutions of and adjustments to the current institutional set-up of the European Union, where, concerning broad new steps in EMU, it is stated that 'this requires, in addition to measures within the existing primary law, a reform of the Lisbon Treaty'.

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