ИНСТИТУТ ЗА ИКОНОМИЧЕСКИ ИЗСЛЕДВАНИЯ НА БЪЛГАРСКАТА АКАДЕМИЯ НА НАУКИТЕ
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CHANGES IN INTERNATIONAL TRADE AND INVESTMENTS AFTER THE GLOBAL FINANCIAL CRISIS

Over the last 20 years, the globalisation of the economic and financial environment has had an impact on world trade and investment and has modified the ways in which international trade and investment transactions are implemented. The expansion of the overseas operations of the international companies is an influential factor. The reduction of tariffs, the increase in the quality/cost ratio of international transport, and especially the deepening of information and telecommunications links, contribute to changes in the way in which international trade and investment transactions are carried out. The evolution of international trade and foreign direct investments (FDI) during the post-crisis period differs significantly from that during the pre-crisis period. The economic and financial environment is uncertain. Besides the global financial crisis, Europe is also experiencing the blows of the sovereign debt crisis – a fact that affects its rapid economic and financial recovery. Despite the liberal trade and investment relations, countries around the world apply non-tariff and administrative barriers in order to protect export-oriented production from external shocks. In recent years, protectionist trends are increasing due to the unilateral imposition of duties on certain goods by the American administration. Does this shift in trade policy mark a turning point in international trade and FDI?
JEL: F13; F21; F23

1. Changes in international trade and investments after the global financial crisis (GFC)

1.1. Periods of development of international trade and foreign direct investments (FDI)

The first period of the development of international trade after World War II is characterized by increasing regulation, the introduction of tariffs, quotas and various types of restrictions imposed upon foreign ownership. International trade mainly covers a number of specific products (and much fewer services). International trade is carried out as a means to tackle the scarcity of resources and goods, rather than as a way of servicing and promoting economic efficiency and growth namely in the European countries. Investments are relatively low and are implemented through state funding and official intergovernmental

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financial support. The creation of the European Coal and Steel Community (ECSC) in 1951 and the subsequent establishment of the European Community mark the strengthening of the economic co-operation and integration of the developed European countries.

During the second period of the development of international trade, the mobility of the factors of production increases. Since the 1980s, the capitals' mobility has made it possible to better realise the countries' comparative advantages and the growth of the international trade and investments has been increasing. The advantages of the free international exchange of goods and services are underpinned by the deepening of the multilateral negotiation process in the framework of the General Agreement on Tariffs and Trade (GATT)[2]. The gradual reduction of the tariffs and the abolition of foreign exchange controls and other restrictions pave the way for the liberalisation of international trade and foreign investments. The establishment of the World Trade Organization (WTO)[3] is an expression of efforts to liberalize international trade.

The removal of barriers to international trade development allows international companies (ICs) to expand their strategic commercial and investment projects. High competition on international goods and services markets is constantly putting pressure on the ICs towards the reduction of production costs and the improvement of the efficiency of foreign trade transactions. International companies are increasingly transferring their production process (or parts of it) overseas, mainly through FDI, in order to expand their business activity on new markets, to reduce the production costs, and to benefit from the comparative advantages of the host country.

Since the early 1980s, major European companies have been exporting labour intensive work abroad. The localisation of some industries or businesses abroad (offshoring, outsourcing) contributes to the expansion of the foreign trade activity of European companies and to the augmentation of their share on the international trade markets. The penetration on foreign markets has led to the increase of overseas European FDI. Overseas mergers and acquisitions, as well as the sale of licenses are increasing. This leads to structural changes in European industry and to the consolidation of the productive capital.

During the *third period* of the development of international trade and investments, the ICs significantly expand their foreign trade activity, mainly due to the new information and communication technologies (ICT). Modern technologies make it much easier to manage

[2] The General Agreement on Tariffs and Trade (GATT) was established at the Bretton Woods Conference (USA, 1944) as a means to restore the economies of the countries after the Second World War. The primary objective of the GATT is to reduce customs barriers to international trade. The GATT activity covers three periods: During the first period (1947-1950), the regulation of some goods is relieved; the level of customs duties remains unchanged. During the second period (1958-1979), three rounds of negotiations are held, resulting in a reduction in customs duties. During the third period (1986-1994), the GATT extends to new areas such as intellectual property, services, capital and agriculture.

[3] The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 124 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. It is the largest international economic organization in the world.

and coordinate the ICs from a single centre. They contribute to the faster integration of newly emerging partners on the international trade and investment market.

The dynamics of international trade and FDI is a result of the liberalisation of the economic relations, the upward economic cycle and the industrial development of Southeast Asian developing countries, which are attracting an increasing volume of FDI.

The structure of the European economies has changed considerably due to the relative narrowing of a number of traditionally developed European industries and the change in national production policies and EU directives. European countries are losing their comparative competitiveness in the production of traditional industrial goods, such as textiles, steel, etc. For European companies, the relocation to overseas markets is profitable. Gradually, the commodities produced in Asian countries, on the basis of industries which have been delocalised from Europe, are conquering the European market (according the R. Vernon conception). European countries are comparatively slower to adapt to the changes in the international goods and services market than the export-oriented Asian countries.

Nevertheless, the EU ranks first amongst the main trading partners in the world, accounting for 16.5% of total world imports and exports. The EU is the world's largest exporter of manufactured goods and services and the main importer of goods from more than 100 countries around the world (EU data).

Alongside the trade liberalization and the integration between the EU Member States with the establishment of the EU Single Market (with free mobility of goods, capital and people), the financial integration also deepens with the establishment of the Economic and Monetary Union (EMU) and the introduction of a single European currency.

A major change in international trade and investments is brought about by the appearance of the Global Value Chains (GVCs) in the 1980s and their expansion and diversification in the coming years. Their activity covers various types of production and services.

The industrial production is starting to become fragmented within the different regions and countries around the world.[4] Global Value Chains provide efficient services (telecommunications, logistics, business services, etc.) that bind production processes in a continuous chain and are a prerequisite for the rapid growth of international companies.

A number of studies have shown that in developing countries (those in the South), GVCs include low-paid and low-skilled peripheral-manufacturing activities. It is difficult to determine whether their activities are in line with the national economic development objectives and strategies of the developing countries.

Contrariwise, GVCs in the developed economies (those in the North) launch high-tech industries, which require a highly skilled workforce and good organizational skills. This suggests that the GVCs localized in developed countries provide additional opportunities

[4] The business of Global Value Chains consists of opening industries in different countries around the world. GVCs produce various goods, ranging from textiles to electronics. The services, related to industrial production are also located in different parts of the world, according to the needs of the whole production process.

for the industries there, working up high-tech production with higher added value, which is in turn beneficial for the expansion and the modernization of the other economic sectors.

China and India are an example of just the opposite. There, the GVCs' activities contribute to the economic development of these countries, and namely to that of innovative technological productions. The building up of China and India's innovative industries is strongly supported by their government policies.

1.2. The impact of the global financial crisis on international trade and investment

The global financial crisis (GFC) (2008-2009) seriously distorts the commodity and capital flows in the world. European developed economies are struggling to cope with the downturn of the economies and the containment of shocks on banks and financial markets (*risk aversion*).

In Europe, the economic and financial decline is felt more markedly than in other regions of the world, because of the GFC and the sovereign debt crisis of 2010. It further hampers the recovery of the European economies and, respectively, the increase in EU international trade and FDI.

The main crisis transmission channel to the markets of developing countries is the strong decrease in the volume of international tradable goods and the slowdown of international capital flows. One of the main effects of the decline in international tradable volumes and the contraction in the volume of FDIs is due to the decrease in banks' loans for funding the foreign trade transactions of big companies. At the same time, the prices of raw materials are falling, which distorts and shrinks exports for a number of developing countries. There is a considerable supply in the oil and gas markets, but demand is rather weak, which results in a drop in energy prices and losses for oil-producing countries. Profits for the consumers of energetics are not particularly high, even with the downturn of prices.

The unfavourable economic and financial conjuncture is forcing international companies to reorient their trade direction and they are concentrating their trade activity on the domestic market in search of a greater stability and predictability of their deals. The decline in international trade is also due to the macroeconomic imbalances that have occurred in the European economies (with the exception of Poland). Household income is reduced, which limits domestic consumption, investment activity and economic activity.

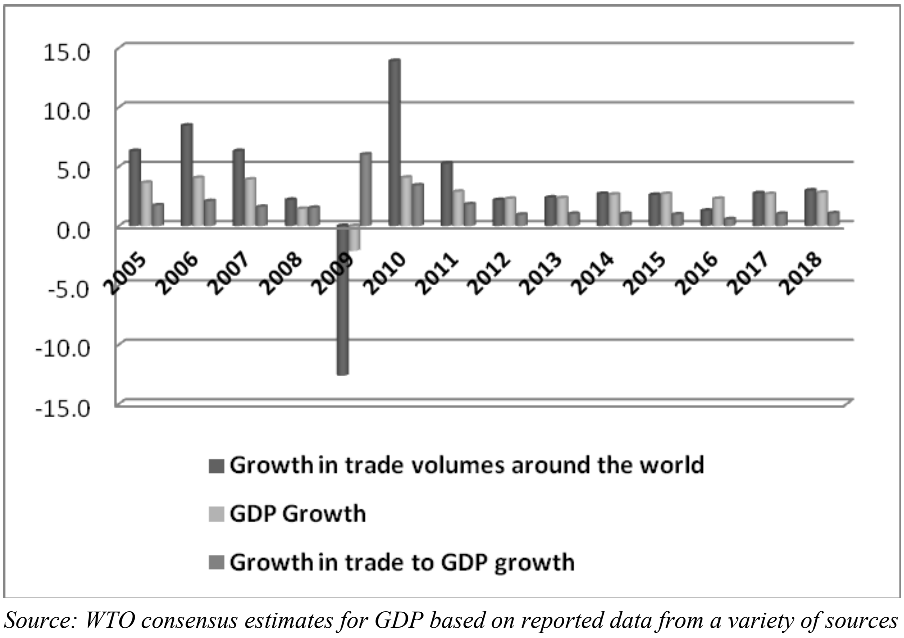
Another aspect that hinders the relatively faster recovery of the world economy and trade is the mismatch between the behaviour of financial markets and the recovery of the real economy.

The main obstacle for EU economic growth is the restrictive monetary and credit policy, which ensures the liquidity in the financial markets. This effect is postponed over time because it is not clear to what extent the rise in asset prices would support the overall economic demand or the distribution of GDP and, respectively, the changes in wealth. It is obvious that the distribution of wealth after the crisis is concentrated in an ever smaller number of countries, international companies and individuals around the world. The exchange rates are volatile, and the prices and profitability of financial assets are down due to financial markets turbulences. Financial uncertainty has a negative effect on international trade and investment deals.

The world economy is torn by the growing and changing economic and political tensions. Not only does the economic growth not reach the pre-crisis levels in many countries, but the significant imbalances which have been accumulated since the beginning of 2000 cannot disappear quickly.

Under the conditions of low inflation, the monetary authorities in developed economies counteract unfavourable economic conditions by lowering key interest rates that fluctuate around zero. This raises a number of questions about overcoming the unfavourable trends and the effectiveness of this measure on international trade. Economic growth has not reached the pre-crisis levels in many countries around the world and one of the reasons is the incapacity of many countries to overcome the effects of the crisis. The new emerging countries register higher economic growth rates and they are developing faster because they have restructured their economies since the crisis of 1995-1996. International trade is also losing momentum due to export credit difficulties, which complicates and hinders the country's access to major international commercial markets. This trend has had an impact on international trade in 2018.

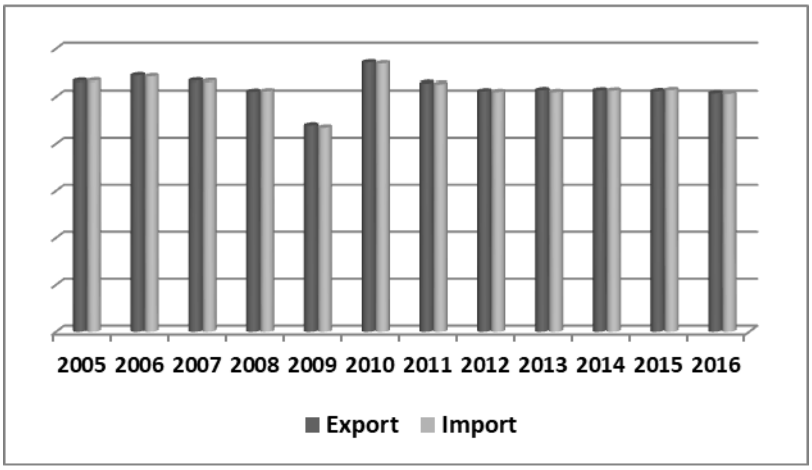
Figure 1
Ratio of world merchandise trade volume growth to world real GDP growth, for the period 2005-2018
Annual percentage change and ratio



Source: WTO consensus estimates for GDP based on reported data from a variety of sources including the International Monetary Fund, the Organization for Economic Cooperation and Development and the United Nations, among others.

Figure 2

World Trade Volume Indexes. Previous year = 100, Total tradable goods



Source: WTO data.

Over the last ten years international trade has not risen at a high pace compared to the pre-crisis period. In the period 2010-2016, the annual growth in the global exports and imports of goods amounted to 2.8% and 2.7 %, respectively. The volume of international trade in goods has been positive in India and China, as these countries are experiencing higher export and import growth than the US and the EU Member States. The USA achieves higher annual growth rates on exports and imports than the EU Member States.

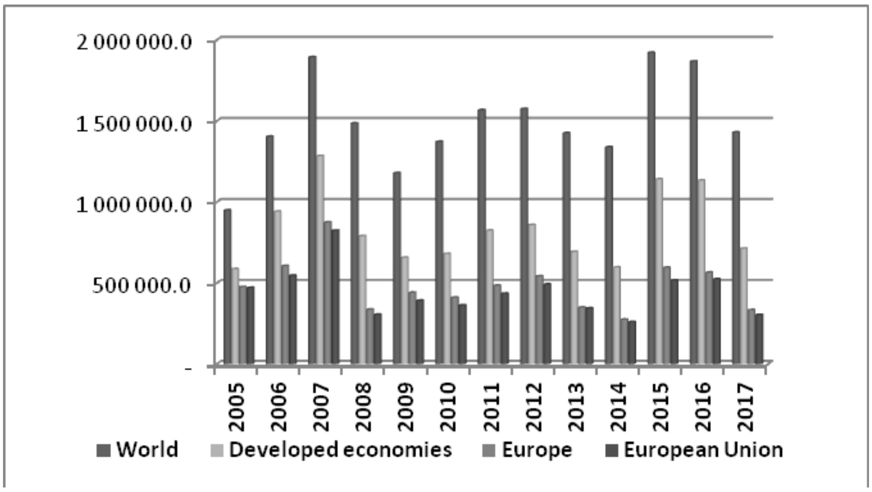
Between 2006 and 2016, the exports and imports of primary goods decrease by more than 33%, those of intermediate goods decrease by 10%, those of capital and consumer goods decrease by about 4%, and those of energy products decrease by about 37%. The overall decline in international trade is over 40% in 2015. Exports of agricultural commodities and ores also decline.

The EU remains an active player in world trade mainly through intra-sector relations between the EU Member States and the countries' dependence on export growth. The share of imports and exports of the EU Member States from Central and Eastern Europe exceeds by 20% that of the Western European countries.

Global FDI flows fell by 23 % to USD 1.43 trillion in 2017 from USD 1.87 trillion in 2016. The decrease in world FDI flows contradicts the behaviour of the other macroeconomic variables, such as world GDP and international trade, which are ameliorating.

FDI inflows into developed economies dropped by one-third (USD 712 billion), due to the increased activity of ICs in 2016, as well as due to cross-border M & A operations and company restructuring. The value of Greenfield investments, which is an indicator for the prospective tendencies in FDI inflows, also dropped by 14% (to USD 720 billion) in developed economies. Emerging economies attracted growing volumes of global FDI in 2017, accounting for 47% of the global FDI, compared with 26% in 2016.

Figure 3
FDI in the world, in developed countries, in Europe and in the EU (in USD)



Source: World Investment Report, 2018, UN, UNCTAD.

The European Union is attractive to FDI. FDI entries in the EU amount to EUR 5.4 trillion – or about 36% of the wealth produced annually by the EU countries. In the EU, 7.6 million jobs have been created due to FDI entries (EU data). EU FDI flows are oriented towards new technologies, towards the promotion of European research and innovation, and towards enhancing the competitiveness of high-tech export industries.

The EU is one of the main investors in third countries. The realised EU FDIs abroad amount to EUR 6.9 trillion, or about 46% of the wealth produced annually by the EU countries. EU FDIs to the third countries have contributed to the creation of 14.4 million jobs outside the EU area (EU data).

Global Value Chains from EU countries remain competitive on the world markets by investing abroad. About 80% of the global trade is currently being conducted through the international production networks of the GVCs.

The reforming of the EU's investment policy is based on the Lisbon Treaty (December 2009). The EU is expanding its FDI competencies as part of the EU single trade policy. The objectives of the EU's investment policy are identical to its objectives in the field of international trade. These include the opening of foreign markets to the European companies, the preservation of their interests on foreign investment markets, and the ensuring of the payments, capitals and workers of European companies which are investing abroad. The European Commission outlines its approach to investment policy (July 2010), according to which, so far, EU countries have signed 1400 bilateral investment agreements that protect European investors. In 2015, the EU publishes proposals for the right to regulation and for a new investment judiciary. The reforms are included in the EU proposal for the Transatlantic Trade and Investment Partnership with the United States (TTIP) and other EU trade and investment negotiations.

2. Is the liberal model of international trade and FDI changing?

Economic crises are appropriate times during which governments and companies introduce protectionist measures to counteract low external and internal demand and can be used as a tool to reduce imports. The risks of introducing protectionist measures were taken into account as far back as the G20 meeting in London in 2009, when one of the main envisaged ideas was "to reject the dangers of introducing protectionist measures".

Historically, the large European companies, which are important for the structure of the economy, have been subject to a special State protection. The protection of the internal market from external competition is achieved through tariffs and subsidies, which are substantially reduced under the WTO oversight of the international trade policy. However, in the context of the free international exchange of goods, countries apply a number of quantitative restrictions to importers in the form of different kinds of allowances.

The imposition of administrative barriers is another measure which is aimed at discouraging importers by imposing additional requirements that protect the domestic producers. Safeguard measures are applied under special conditions, whereby an in-house producer must be protected by the international company that intends to invest and build a similar production in the host country.

The introduction of non-tariff barriers (NTBs) shows that in some cases, despite the liberalised international trade, countries apply NTBs when conflicting relations that have forced them to resort to such requirements arise. The countries' trade policies include an increasing number of protectionist measures in the form of restrictive and obligatory clauses, export subsidies that stimulate exports, as well as other requirements.

The liberalisation of trade and economic relations continues through the enactment of multilateral trade agreements that undertake the trade and investment intentions of the GVCs. In this context, the emergence of the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU and the start of the negotiations on the Transatlantic Trade and Investment Partnership (TTIP) in 2013 between the US and the EU are the significant examples.[5] The TTIP is an agreement that protects the economic interests of the EU and the US, aiming at boosting economic growth and creating new jobs.[6] These measures are directed at expanding the scope of the GVCs, which will be exempted from a

[5] The CETA is a trade agreement between the EU and Canada, aimed at facilitating the export of goods between trading partners. On 21 September 2017, the CETA was provisionally adopted; in order for it to enter into force, it must be ratified by the national parliaments of the EU Member States and the international regional authorities.

[6] The TTIP has been negotiated "behind closed doors" between the EU and the US. It is estimated that about 1 million jobs will be lost, and that the social responsibility of the European state will be reduced. EU food, environmental and labor standards will be changed, and US companies will have the right to sue others abroad in special courts.

number of import and export restrictions. The US international companies would like to receive the rights to impose their policy without external interference from the host country's legal authorities. The CETA and the TTIP have not yet entered into force.

These agreements are aimed towards the deepening of globalisation and towards rising irreversible barriers in front of countries that would like to protect the local production and the economy as a whole. The bilateral trade agreements, given that the tariffs have been significantly diminished over the past two decades, are instruments which do not allow the imposition of serious protectionist barriers on international trade. For this reason, public and policy concerns remain, that contracts such as the CETA or the TTIP may lead to violations of the established marketing standards and the requirements adopted between major trading partners.

In recent years, a change has occurred in the philosophy of the American administration as opposed to that of the WTO's multilateral trade policy. It is proposed that a duty of 25% on imports of steel and a duty of 10% on imports of aluminium from the EU, Canada and Mexico be introduced. The US announced in March 2018 that it would impose an "import tax" but that it is introducing temporary exceptions for the EU, Canada, Mexico, Brazil, Australia and Argentina (the last three countries have negotiated duty-free imports with the US). In 2017, the EU exports steel worth over EUR 5 billion and aluminium worth over EUR 1 billion to the US. The EU's symmetrical response is the introduction of US tariffs amounting to EUR 2.8 billion initially and EUR 3.6 billion for the duration of three years. At the same time, the EU will continue to abide by the WTO rules and decisions, stressing that "the current EU decisions are fully in line with international trade legislation".

A question arises, as to how international trade and FDI will develop? Are the retention in the growth rate of international trade and the contraction of FDI showing the changes in globalization? Do we move towards a new stage in economic, trade and investment relations?

Such questions come up because of the tensions that have arisen due to sharp political conflicts in the world. The EU faces the need to reform its main policies, due to the fact that Britain will leave the EU in 2019. The long-term negotiations process between the UK and the EU, which will bring about a lot of unclear questions including that of the trade relationship between them, are a prerequisite for future imbalances.

Conclusion

Post-war globalisation, liberal international trade and FDI are contributing to the expansion of international trade, FDI and the expansion of the GVCs. The stages of international trade development and the growth of FDI have transformed the liberal concept that has dominated in the years leading up to the GFC. The consolidation of international capital and liberal multilateral trade make possible the industrialisation of Southeast Asian countries and the comparative narrowing of the European industry. Although Europe remains a strong pole of economic and international trade development, a producer of high added value goods. In the years after the crisis, the global production, trade and economic relations of the GVCs have become much more limited.

The countries are imposing more and more NTBs and other administrative requirements to restrict the imports of goods for which the country has production capacities. Contrary to the multilateral trade and investment policy, the protectionist direction of the US trade policy sets a new framework of trade and investment behaviour.

Regardless of the flawed trends in international trade and FDI, this does not mean that free trade, as such, will cease to function and that global protectionism will be established. The growing and changing economic and political tensions will affect the world economy. The economic and political changes will be significant and free trade will be subject to significant tensions.

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