

The Global Contract

The Path to Putting People First

Short Summary

I am the founder of *Nature and People First*, an energy storage company, which specializes in finding sustainable solutions to balance out the sporadic nature of renewable energies like solar and wind. Along with a group of highly trained engineers, I have re-invented an energy storage technology based on the principles of hydroelectricity, utilizing natural elevation change between small, man made ponds at different altitudes. To be more specific, I am building *Low-Impact Community Scale Pumped Storage* solutions. *Nature and People First* is working on sites in the United States and Europe, where environmental laws are strict. Just recently my company had to abandon its plans to build on a site because it would have disturbed rattlesnakes and salamanders. In addition to environmental concerns, we have to respect stringent social standards, which I am more than happy to do for my employees: the company is called *Nature and People First* for a reason!

My company competes with the battery industry, whose supply chain is a laundry list of non-existent to subpar environmental and social standards. Batteries require cobalt, otherwise known as the “blood diamond of batteries.” This electric-blue chemical element is primarily extracted from mines in the Democratic Republic of Congo (DRC). As reported by Fortune Magazine and the Times of London, working conditions are abhorrent: unsupported mining tunnels give way, killing miners; masks, gloves, and hard hats are inexistent; miners develop dangerous coughs and lung problems. And to make matters worse, an estimated fourty thousands of children work these mines for one dollar per day. Conditions are a far cry away from human decency. In addition to cobalt, batteries require lithium, which requires vast amounts of water to be retrieved in deserts where water is scarce – a serious concern for the environment. Then, the process calls for the use of aggressive chemical products, which, when not handled correctly, tend to leak into nearby water sources, poisoning species. This happens a lot in China, where lithium is also extracted. In fact, 80% of the cobalt from the DRC is exported to China for processing and 60% of the world’s lithium-ion battery is manufactured there. China is also producing 85% of the world’s rare earth elements, which are also essential to battery production. Considering China’s limited labor, environmental, and social standards, it should come as no surprise this burgeoning economy is dominating the rare earth market. Speaking of China’s inadequate standards, child labor is frequent, salaries are not always paid, and legal recourse is an uphill battle. China also has one legally official trade union for workers to join (headed by the Communist Party) - not to mention poor access to pensions and healthcare (e.g. hospitals require the equivalent of an annual salary in cash before any treatment can be done - even for workers with health insurance). I am directly competing with something I *cannot* compete with. Not on a level playfield, anyway. While I am doing all I can to avoid disturbing salamanders and rattle snakes, my competitors work with suppliers in the DRC, who are responsible for the death of children in mines. If my company were to commit one tenth of these business practices at home, I would justifiably end up behind bars. And yet, many would tell me to suck it up. Talk is happening of excavating cobalt and rare earth elements in the U.S. but how would such a

plan survive considering the abyss of cost difference between the latter and China? This is unfortunately the reality of the world today. Well, the world we are living is in dire straits and this affects everyone.

The substantial gaps in labor, social, and environmental standards I have just described are responsible for undeniably large cost differences. According to OECD statistics, while 30% of the United States' GDP goes to social spending, and Western Europe averages at around 26%, China clocks in at 7% as does Mexico. Angela Merkel deftly laid out the issue in 2012: *"If Europe today accounts for just 7% of the world's population, produces 25% of global GDP and has to finance 50% of global social spending, then it is obvious that it will have to work very hard to maintain its prosperity and way of life."* Lowering costs isn't rocket science: move manufacturing to a place where all the above considerations are either not enforced or poorly enforced. Me, on the other hand, I don't want to play that game. The reason I can't just follow the well-paved road is because I'm more than an entrepreneur - I am an activist. And when I come face to face with an unacceptable situation, I usually end up trying to do something about it.

The simple fact that my company is based and operates in the West means that there are higher standards to respect. Benefits, wages, and strict labor laws and security standards for employees – all of this adds up, and I am absolutely OK with that. Sure, it makes doing business expensive, and we remain a niche market but I have experienced the joys and constraints of quickly building large businesses, and this is a new challenge. However, we are unable to create as many accessible jobs in the West as we'd like due to this unlevelled playing field, which is a shame when considering the current economic struggles of the middle-class in the West. There is also a non-negligible strategic dimension to this situation. As it stands, the lithium, cobalt and rare earth markets are controlled by a small number of countries and commodity dependency is a dangerous game, as tensions with OPEC (the Organization of the Petroleum Exporting Countries), can confirm. Similarly, there is the China consideration. As mentioned above, the country controls a majority of the world market for battery manufacturing. Since battery cells must be changed every 7 to 10 years that creates a huge dependency on Beijing. The battery supply chain also depends on rare earth elements from China, which creates another significant strategic dependency. With my company's technology, energy can be dispensed for over 50 years, thus minimizing that strategic crutch on foreign nations. The sad fact is, the mainstream practice, which is fraught with subpar social and environmental standards, is also responsible for creating these significant strategic issues. In order to remain competitive, we have to find low-cost equipment for our power plants. There are very good equipment manufacturers for our power plants in Europe and the U.S. But, due to cutthroat competition from low standard, blood-diamond batteries, we have had to seriously consider Chinese equipment, which is half the price of Western ones. There is no doubt about it - this is a race to the bottom, and we are unfortunately a part of it. Equipment accounts for 40% of what we do and in order to remain in the game, we have to seriously consider the cheaper options. Imagine a world championship in any given sport, and half the teams are made to follow strict rules, while the other teams are allowed to improvise and are not subject to the same rules. What would the point be of playing? The outcome is set before the game has even begun. This situation is one of unfair competition, which is why the world trade regime today is not only unbalanced but unethical.

This situation is frequent in a number of industries and has deep **economic and strategic consequences**. Due to major government subsidies, forced technology transfer laws, and low labor, social and environmental standards, China is now leading the way in a number of strategic industries. Most solar panels and wind turbines are now manufactured in China. Similarly, the fast-growing Chinese company, Huawei, now largely dominates the telecommunication equipment industry, which used to be dominated by six Western companies just twenty years ago. There are only 2 western companies left – but much smaller and losing market share fast. Back in 2003, Serge Tchuruk, the CEO of Alcatel, one of the six large global players at the time, described how cost differences allowed for Chinese competitors to hire three R&D engineers for the price of one in Europe. It is obvious that a far larger number of R&D engineers allows a company to be far more innovative and competitive. The salary gap for these high-skilled jobs has narrowed but is still there, and that gap is still significant in manufacturing, with salaries commonly six times lower than in the West. And what are the strategic implications of this? The United States, the titan of the technology industry, is painfully trying to convince their allies not to use Huawei 5G products, legitimately worried the company is in the hands of the Chinese government and will use networks in the West to gather intelligence and potentially far worse, trigger cyber attacks through so called “backdoors” in case of conflict. 5G will be used widely in transportation and healthcare applications. One can imagine the consequences if the Chinese government is capable of controlling these key infrastructures and platforms. This is unprecedented in the history of international company conflicts. Europe is just waking up to these challenges. However, the EU just dismissed Alstom and Siemens’ request for merger. The rail equipment companies are concerned with Chinese competition disrupting the high-speed train market in the Union. CRRC, the Chinese giant in rolling stock, dominates the domestic market and is making major headway internationally. CRRC’s prices are highly competitive and there’s no secret as to why: a massive internal market, state subsidies, and of course, low social and labor standards acting as an impressive cost-cutter. The European Union, while attempting to maintain fair and dynamic competition within its borders is blind to what may be coming from outside. The sad fact is, Western nations have been naïve and shortsighted in their approach towards international trade in the past 30 years.

The **social and political** consequences are significant too: just look at the massive offshoring of jobs from developed nations to developing countries over the past thirty years. The U.S. and Europe’s industry share of GDP has been melting like ice under the sun. According to the World Bank, France’s manufacturing share of GDP went down by 38% from 16% to 10% between 1990 and 2017, and the UK saw a decline by 47% from 17% to 9%. Similar to France, U.S. manufacturing declined from 16% to 11% in the same time frame. Linked to this decline in industry is the shrinking of the middle-class. This group, essential to the well-being of any economy, made up 61% of U.S. society in 1971 and is now at 50% in 2017. According to the Pew Research center, the median income of the middle class in the U.S. fell 4% between 2000 and 2014. 40% of adults in the U.S. have claimed that they would not be able to cover a \$400 emergency expense. Though this is just anecdotal, it is symptomatic of a larger problem. Unbalanced and unethical free trade, via consistent offshoring and devaluation of industry, is not solely responsible for the shrinking middle-class. Automation is playing an important role too, but

since it has also created jobs, it is viewed less critically by Western societies. This is not the case for trade-related job losses, which have engendered major political frustrations. MIT professor David Autor has found a causal relationship between counties affected by trade with China (2.4 million jobs lost since 1999) and a switch from a Democratic vote to Trump. The ballot box does not lie: blue-collar voters in the rust belts of the developed world are upset. Unbalanced free trade has fueled populism. Brexit, the Yellow Vests riots in France, populist parties taking power in Italy, and the Trump vote are a manifestation of this new, worrying reality. Massive and often unruly immigration is also an undeniable factor but the *negative* reactions to this influx are exacerbated by social and economic hardship at home.

As the famous economist Thomas Friedman said, “the world is flat.” Advances in technology and communication have made it so goods, services, and people from every part of the globe can interact and work together. Yet, countries do not evolve at the same speed, and this “flat” world has made it so all these places are now interconnected, creating a shock wave of instability. I have traveled extensively. I have witnessed the social and environmental standards in many developing nations and it is like traveling back in time. At home, we have the most advanced standards, even though no system is perfect. I was born and raised in Lyon, where the Canuts revolts of the mid-1800s are famous for being some of the first fights for labor justice in France and in Europe, which shudderingly, even inspired Karl Marx. In Asia, current standards are not much better than those we had in Europe over one hundred years ago. The 2013 Rana Plaza fire in Bangladesh, which killed over a thousand people, is a sore reminder that safety standards are as low in some places today as they were in 1904 New York City when a fire at the Triangle Shirtwaist Factory caused the death of over one hundred women. Not to say there isn’t progress – but that progress is slow because these countries still have a ways to go in terms of democracy. Where are the incentives to do better? Multinational companies have no incentive to increase salaries unless customers decide to apply pressure by boycotting their products. Governments also can’t seem to get it done. In most African countries, these standards are for the most part non-existent, as demonstrated by the atrocious work conditions in the cobalt mines in the DRC. Questionable post-colonial Western help, followed by violent civil wars, have put these nations at a major disadvantage. It is important to continue doing business with them but we should no longer be taking advantage of their failings like we do today with the battery supply chain. On the contrary - we should help them improve their standards. In the end, putting people first will ensure that prosperity is a possibility within every national border – and ultimately halt the migration crisis currently unsettling the West. Thanks to technology and the internet, those in the Southern hemisphere have access to the wealthy Western way of life and are drawn to it. It is time to help them reach that reality for themselves at home.

A legitimate question is *how* did we get here? Why did we decide to have vastly different types of nations compete in trade? This began after World War II and accelerated in the late 70s due to the Japanese shock on Western manufacturing. Lower cost, higher quality automobiles and electronics from Japan flooded the European and U.S. markets. Corporate America was hasty. It could not compete with the Japanese, simply by adopting Japan’s business philosophy, that was the hard road. No – it was far easier and faster to just relocate manufacturing to lower-cost countries.

NAFTA is the prime example of that mindset and one of the most effective PR campaigns in recent history. Major U.S. companies organized themselves into “state captains,” whose mission was to convince local politicians that the agreement would bring wealth and create jobs back at home. Unions fought back tooth and nail, warning that all was not as it seemed, but ultimately failed to prevent the deal. It didn’t help that corporate America managed to get some prominent academics and economists on their side, portraying in an exceedingly positive light and extending into uncharted territories the well-known economic theories of comparative advantage and division of labor to justify what was ultimately a race to the bottom. Reducing a developing country’s comparative advantage to just labor costs was a means to prioritize short term profits over people. Corporations saw the world as a gigantic, borderless pool of labor that could be tapped into, with the narrow-minded belief that national and strategic interests did not matter anymore. At no point was “unfair competition” raised as a major objection. In an interesting turn of events, the Democrats, who initially supported the unions, changed their minds due to pressures from corporate lobbies and abandoned their union voter base and ultimately, the middle-class. In an amazing transatlantic mimic act, political parties in most of Western Europe (e.g. Labour in the UK and Socialists in France) followed suit. They abandoned these blue-collar workers, who were bound to disappear with their industries moving away, and focused on supporting various minorities instead.

The most consequential blow to the international trading system came in 2001 with China’s entry in the WTO. Corporate America strongly supported this new addition, which made sense: the market access was a gold mine – over a billion potential customers and an overwhelmingly large pool of cheap, disciplined workers. Desperate to tap into this growing economy, Western nations naively accepted this newcomer without a strong, effective monitoring process. Beijing promised to transition into a market economy. It would cease to enforce joint ventures dependent on forced technology transfers, government subsidies would be relaxed, and state-owned enterprises would be replaced by private entities. Except, none of this has *really* happened. For a while, politicians in the U.S. and Europe could quell the unrest of laid-off factory workers by demonstrating that consumers were the real winners: cheap products coming directly from China meant more bang for your buck! However, in the long term, cheaper goods have not led to a more prosperous middle-class. And the Chinese market has proven difficult to penetrate for Western companies, with all kinds of obstacles including a hostile and biased legal system. Western nations were more than naïve - they were shortsighted. After centuries or humiliation by Western nations, bloody wars and decades of brutal communism, the Chinese have demonstrated a formidable resilience and appetite for work and progress. Is Chinese leadership to blame for unleashing this energy and taking advantage of our weaknesses and short term views?

The U.S. isn’t the only Western power guilty of frenetic haste. The European Union is also dealing with the political and social consequences of quickly integrating the former Soviet bloc countries into the Union’s free trade zone. Though the salaries in Eastern Europe have been rising, those salaries are still staggeringly low - 4-7 times lower than in Western Europe – thus triggering significant job losses for

those Member states. Unsurprisingly, social spending is also lower (e.g. Western Europe averages 26%, while the Czech Republic is at 18.6% and Estonia at 14.9%).

We are facing formidable competition from emerging countries and it is urgent to act *now* to minimize the negative social, economic and strategic consequences. The West is no longer leading in telecommunications and the renewable energy industry. However, this is only the beginning. The automobile shock is on its way. This industry is the bedrock of manufacturing employment, representing 7.25 million jobs in the U.S., and 12 million in the E.U. China is already manufacturing 2.5 times more vehicles than the former. It has more than 10 leading brands that no one in the West has ever heard of – yet. However, the quality of these cars is now comparable to what we have at home due to decades of forced technology transfers. They are also selling them in a number of developing countries at half the price of Western brands. This is not surprising since automobile workers, mostly located in Central China, make \$6 per hour and have limited benefits thus making the total cost at around \$8 per hour, compared to substantial benefits such as generous health care and pensions and a \$30 to \$35 per hour rate in the US thus making the total cost at around \$45 to \$55. China will be a fierce competitor for gasoline-powered vehicles but also for electric vehicles, with over 500 EV start-ups. Once China decides to move into the Western market, the economic shock will be brutal. Even European entrepreneurs are setting up their first EV plants in China! But the auto industry is not the only transportation sector to face steep competition. China has plans to become a major player in the airplane industry; announcing the creation of the first airplane capable of flying at the phenomenal speed of Mach 6. There will come a time when the West will not be able to compete anymore in the manufacturing of boats, cars, trains, core-energy and telecommunication equipment. This will cause additional massive lay-offs in these industries. In case of major conflict with China, the West is likely to lose big. A Chinese industrial dependency means running the risk of not being able to maintain the upkeep of Chinese purchased equipment and the loss of newer generations of said equipment, which China will likely hoard for its own armed forces. The Beijing consensus, aka China's way of doing business, is gaining momentum with developing nations, almost everywhere in South East Asia, in Africa, as well as Eastern Europe and Latin America. This will make it impossible for market-friendly, democratic values to stand a chance. The Beijing consensus offers little leeway for individual freedoms and human rights in general, let alone advanced environmental, labor, and social standards. The West is still a major customer of these countries and can thus, if united, help shape a more balanced free trade system that puts people first. But this leverage will not last for very long.

China is not the only reason we need to move fast. Automation is accelerating at an impressive pace and responsible for replacing an important amount of manufacturing jobs. Artificial Intelligence (AI) and improved robotics will have a very significant impact on the middle-class. These innovations undoubtedly spur productivity gains and create jobs - but not for everyone. The McKinsey Global Institute thinks that as many as 73 Million jobs, like drivers and warehouse employees, will disappear by 2030. Undoubtedly a better educational system and serious training courses are answers to this challenge. However, and not many want to admit it, not everyone is qualified to become a “*knowledge*

worker.” If we also lose what is left of manufacturing, this will simply exacerbate social tensions in the West.

Free trade is not a bad word – it isn’t a bad thing. First, it works like a well-oiled machine amongst countries with similar social, labor and environmental standards, and is a formidable source of prosperity for the developing world . Second, thanks to free trade, poverty has declined at a staggering rate: in 1981, 44.3% of the world’s population lived under the poverty line, today that figure has drastically dropped to 9.6%. However, as trade keeps growing at a fast pace, standards in developing nations are slow to follow. The promise was that free trade would bring economic prosperity to developing nations, which in turn would bring democracy and standards would raise thus converging with the West. This has not happened. China has proven that economic prosperity is possible without political liberty. In the West, where freedom of speech is protected, it took over 150 years of fierce battles to have the standards we have today. How much time will it take for countries where that freedom is suppressed or limited? Even in an advanced society like Mexico, who signed NAFTA 25 years ago, the evolution is slow with hourly wages in the automobile industry still in the \$5 range. So much so that President Trump has threatened to impose a salary increase on Mexican auto-workers from the outside.

So, what can realistically be done? First, Western nations (North America and Western Europe), who have similar advanced standards, should unite on these topics and not shy away from fighting to preserve them. It is time to re-evaluate the international trade regime and put people first like never before to design a new form of ethical and responsible free trade, a new Global Contract. Trade should be a tool to help the world converge on these standards gradually instead of being used to destroy the foundation of modern societies and to keep developing countries at low levels of advancement. This ambitious and generous goal should resonate particularly well with the younger generation who often understands better than the previous one that the world we live in today needs a major redesign.

A Compensation for Social and Labor Gaps (CSLG) mechanism should be implemented and applied to imports coming into developed countries. Half the money collected would go to helping fund the improvement of social programs and institutions in developing countries, with the help of local NGOs and other organizations. The other half of the money would go into funding regions impacted by globalization in developed countries (e.g. vocational training programs, educational hubs). The goal is to help re-establish the level playing field. For the 47 least developed countries (LDC) listed by the UN, the entirety of the money collected would be invested in the LDC. A clear distinction should be made between non-strategic and strategic industries. Jobs related to non-strategic industries such as toys, furniture, textile, and shoes have mostly been displaced and bringing them back is not a realistic option; it would be too costly for consumers in the West and too impactful for those in developing countries who need these jobs. The CSLG would not exceed 10% for the worst situations and would be based on social spending levels and adherence to the International Labor Organization’s five core labor standards, like legalizing collective bargaining and eliminating child labor. Meanwhile, strategic industries, such as the ones mentioned above, should be protected and the CSLG would help instate fair competition rules between developed and developing countries. Unlike for non-strategic industries, the import cost

here would be higher to incentivize companies to preserve manufacturing jobs and strategic know-how capabilities at home. The compensation will not be capped in this case. It will be based on an evaluation of the share of labor costs in manufactured products per industry or even at the company level. The CSLG will be based on the labor cost difference. The final price of Chinese cars in the U.S. will be as if their labor costs were \$45 to \$55 an hour like in the U.S., and not at \$8 any more. Vast contrasts in labor costs due to differences in social standards would not play a role anymore. Another possible consideration besides labor costs is to take into account differences in social spending, in order to incentivize higher standards in this area. This will help bridge the gap between China, which is at 7%, and the U.S. at 29%. Considering the magnitude of this program, it should be overseen and run by a legitimate and far-reaching international institution like an alliance between the WTO and the ILO. They should have audit rights over the exporting countries and/ or corporations. Regarding environmental standards, the priority should be to curb carbon emissions. There is an urgency to level the playing field here as well. Why should countries like Sweden (\$131 per ton of CO₂) carry the brunt for those with no carbon tax at all? A similar model as the one suggested for social and labor gaps could be built including a **Compensation for Environmental Gap** together with the CSLG. The United Nations Environmental Program should step up its compliance and inspection measures to further promote responsible behaviors (e.g. mining of rare earth elements). Manufacturing is not the only issue at hand – agriculture and services are also major players who suffer from these same standard gaps.

The U.S. has a long history of battles led by average citizens to improve their lives and the lives of their fellow employees. It won the world's respect when it fought and won battles in the name of universal values such as freedom and democracy. When the U.S. defeated brutal fascists regimes and later on brutal communist regimes, it fought in the name of widely recognized universal values. In order to prevent a future war, isn't the peaceful battle for global social, labor and environmental standards the battle the U.S. should lead in the 21st century?

For almost a century, the West managed to enshrine high social, labor, and environmental standards and protect its industry, and the political stability and independence that went along with it. The whirlwind of unbalanced free trade (and automation) in the last thirty years has upended this certainty. We are now facing cataclysmic issues of global uncertainty such as Brexit, the U.S.-China Trade War, the rise of Huawei, and the race for renewable energy production (i.e. rare earth elements). We are at a crossroads: Either we risk our standards or our industries and the political independence they secure. In order to make sure we maintain both, free trade must be rebalanced.

Every data and information in this document is the result of extensive research from reliable sources and is verifiable.

