

Chapter I – My Journey

I have spent the last thirty years working across national borders – whether as an employee in Japan or creating and running businesses in Europe and the United States. I know how multi-national companies think and operate and have first-hand experience in how to run a business in a globalized society. For that reason, I am particularly attuned to the current conversation on free trade. **This chapter will lead the reader to understand why I have chosen to be part of that conversation.** My story begins where I grew up, Lyon, France, where the first labor conflicts erupted in France back in the 19th century. This violent history for social and labor justice explains why it is a place with an inherent understanding of what it means to be a *socially* conscious entrepreneur. Growing up, I was deeply impacted by this spirit, which was pervasive among my family members. This probably explains why *putting people first* comes naturally to me.

As an entrepreneur, I co-founded two innovative companies that became world leaders in their respective fields: The software company *Business Objects*, which is now a product of the global German software company *SAP*, and an e-logistic company *Kiala*, acquired by *UPS* and now known as *UPS Access Point*. Employees played in a crucial role in our success. I wanted them to have a piece of the pie - stock options and the chance to become co-entrepreneurs themselves. I began advocating for them when the French government decided to curtail the attractiveness of stock options by imposing a burdensome tax. In order to help employees, I created *Croissance Plus*, a non-profit organization, which was instrumental in convincing the French government to implement a model that would enable start-up companies to attract employees by turning them into co-entrepreneurs. Since 1997, this model has been majorly influential in the success of French start-ups. Political activism has always been in my blood. In 2013, I created *Nous Citoyens*, a political movement that advocated for major structural upheaval as well as combatting high unemployment rates and growing populism. In just nine months, we had 12,000 paying members and collected 266,000 votes in the European Elections of 2014. We influenced two of the leading 2017 Presidential candidates, including President Macron.

In this chapter, I will introduce my new company *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. This latest venture is what led me to pick up my activist hat one more time: this time on the subject of unbalanced free trade. As the reader will see in the next chapter, my direct competition with the battery industry is what led me into action.

Chapter II - The Battery Supply Chain: The Poster Child for Free Trade's Failings

Like I mentioned in the first chapter, *Nature and People First* competes with the battery industry, which **perfectly illustrates the current trading system's shortcomings**. Lithium Ion Batteries require cobalt, aka the “*blood diamond of batteries*.” This chemical element is primarily extracted from mines in the Democratic Republic of Congo. Working conditions are abhorrent: unsupported mining tunnels give way; masks, gloves, and hard hats are inexistent; miners develop dangerous lung problems. And to make matters worse, thousands of children work these mines. In addition to cobalt, batteries need lithium, which requires vast amounts of water to be retrieved in deserts where water is scarce. Then, the process makes use of aggressive chemical products, which may leak into nearby water sources, in China in particular. The battery supply chain also depends on rare earth elements, 85% of which are mined in China because the country has low social, labor, and environmental standards, whereas Western countries do not, and thus are competitively carved out from mining these rare earths in any profitable way. 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. In addition to low environmental standards, China also has limited labor and social 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 (headed by the Communist Party) - not to mention poor access to pensions and healthcare. Today, 68% of the world's cobalt comes from the DRC, and that could soon increase to 75%. Considering how ethically despicable cobalt extracting in the DRC is battery manufacturers are attempting to reduce the amount they use - a difficult task. In addition, there is a strategic consideration, here: the lithium and cobalt markets are controlled by a small number of countries and commodity dependency is a dangerous game, as tensions with OPEC, can confirm. Finally, as companies continue to depend on China as a key component of the energy transition, this will open up more strategic and security concerns for the West.

There is no doubt about it - this is a race to the bottom. Companies doing business in the West must abide by strict social and environmental standards. My company's competitors, battery manufacturers, do not have to respect these standards. **Their practices would be illegal at home.** Yet, this situation is accepted and perfectly legal. While I am prohibited to do business in a certain area in the U.S. because it will disturb salamander habitats, my competition is involved in mining operations that put children's life at risk. Since equipment accounts for 40% of what we do, we have to seriously consider cheaper options from places with minimum standards to remain in the game. These low standards always win, thus discarding alternative solutions that could be better for the world. Imagine a world championship in any given sport, and half the teams are made to follow strict rules, while the other teams 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 chapter delves into this troubling industry to give the reader a deeper and concrete understanding of how unbalanced**

and unethical free trade has deep social, environmental and strategic consequences around the world.

Chapter III – System Shutdown? The Unexpected Strategic Consequences of Unbalanced Free Trade

This chapter asks an uncomfortable question: Are we exposed to strategic concerns that could put Western nations at risk? If history has taught us anything, it is that powerful nations rise and fall. Today, this fact no longer evokes the image of a sword but one of purse strings. The West has lost most of its low value-added industries. And if “Made in China 2025,” China’s strategy to become the world leader in high-value industries is any indication; the entire Western world will one day be in direct, but unbalanced, competition with its Eastern neighbor in robotics, biomedicine, aviation, telecommunications, tech, and energy. These are our remaining comparative advantages. If these strategic industries begin to flounder, then national sovereignty is at risk. Relying on conflictual foreign powers for manufacturing and equipment maintenance for telecommunications equipment or aviation can put a country at risk of losing its political independence. Not to mention, a lack of access to latest generation equipment could create a serious military threat. Let’s take a look at Huawei, the Chinese telecommunications manufacturer.

It is an unprecedented case in global economic conflicts. Washington fears that the Chinese government has ulterior motives for Huawei such as cyber attacks capable of paralyzing U.S. infrastructure and services, particularly as 5G becomes the norm for transport and healthcare. The government is blocking the company from operating with American telecom networks. The Trump Administration is pressuring its allies to do the same. This is not your traditional commercial war. Huawei, a third party, is generating discord and mistrust between allies. How come the United States, the global super power, the titan of the technological industry, has so little leverage with its allies against a newcomer? How did we get here? Twenty years ago there were six leaders (all Western) competing in the telecommunication equipment industry worldwide. Today, only two are left and they are losing market share fast and are *much* smaller than a Chinese newcomer. This is the result of twenty years of unbalanced free trade. In 2003, the then CEO of Alcatel, one of the leading telecommunication equipment players at the time, lamented that for the price of one engineer in Europe, he could hire three – of good quality - in China. Why does this matter? It matters because the loss of critical, strategic industries would not only have significant social consequences (i.e. job losses), the loss could also put Western nations in a weak and vulnerable position if their diplomatic relations were to deteriorate with those who supply products that they

have ceased to manufacture. **This chapter will illustrate in detail, through various industries presented (e.g. telecommunication, energy, aerospace, mining operations and rolling stocks) how desperate deals, misplaced trust, low labor-costs and multi-national company behaviors all contributed to creating the dire situation the West is in today. We will examine the unsettling fact that we may, in fact, be losing more than our economic edge – our political freedom and independence is on the line.**

CHAPTER IV - The Social and Political Shock in the West

Beyond the severe strategic issues mentioned above, unbalanced and unethical free trade has reared a number of alarming consequences: societal turmoil in the Western world, illustrated by a frightening rise in populism and nationalism, and a lack of global initiative to remedy the poor social, labor, and environmental standards in the developing world. The middle-class in many European states and the United States is hemorrhaging. As this chapter will demonstrate, this plummet is a major cause of Trump's election in 2016, the Brexit debacle, the Yellow Vests movement in France, and the election of a populist coalition in Italy. 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. And it is no surprise as to why this is happening: The United States spends 30% of its Gross Domestic Product on social spending, Western Europe is at 26% on average, while Mexico and China spend around 7%. And this disparity matters as it shapes a country's policies and actions.

Unbalanced and unethical free trade is in large part responsible for almost forty years of massive job losses in manufacturing and services as a result of offshoring to developing nations where labor is cheaper. This fact, and the high-speed evolution of automation, has led to the situation we are in today. According to MIT Professor David Autor, who has studied the social impacts of trade agreements, 2.4 million jobs have been lost in the U.S. since 1999 due to trade with China. Autor linked counties affected by trade with China and the switch from a Democratic vote to a Trump one. The Bureau of Labor Statistics found that in Maine, a predominantly rural and industrial state that, "*the fact that the gains from international trade almost always outweigh the costs does not mean the costs are any less real. The costs can be very significant for individual workers and their families.*" Rural Maine voted in a majority for Donald Trump. This is not a surprise – he ran on a platform that spoke to their interests: keeping jobs in America. **This chapter explores what happened, as it will tell the stories of a number of communities that were deeply affected by industrial offshoring due to trade in the U.S. and in Europe. In an interconnected world,**

goods and services are not the only ones to seamlessly cross borders: politics and influence do to. We take our social and labor standards for granted at home. We forget that they did not happen over night. The next chapter is a look at the evolution of the social rights Europeans and Americans have fought so hard to achieve and maintain.

Chapter V - The Long Path to Putting People First

The social standards defended by this book are undoubtedly the most advanced and sophisticated around today and represent the most enlightened form of civilization in human history. But where do they come from? This chapter is a historical deep dive into the evolution of social and labor rights in the Western World. **This progress did *not* happen over night: it is the result of a century of struggles – a fact that should not be forgotten when looking at these issues.** The first American strike for a 10-hour workday dates as far back as 1791. Meanwhile, trade unions were legalized in England as early as 1824. From a hundred silk workers in 1831 Lyon, France, to 26 railroad workers in 1877 Chicago, there are countless examples of exploited workers abandoning their stations, losing their lives, in the name of humane working conditions and compensation. The Triangle Shirtwaist Factory fire of 1911, which caused 146 deaths, is still being taught in schools across the U.S. today. As these examples demonstrate, the fight for labor rights were not a walk in the park. The Industrial Revolution provoked a social revolution that demanded perseverance. These tense confrontations for high social standards seem to have been forgotten or worse, taken for granted. **This chapter will examine some major milestones** – the first unions and the freedom of assembly, healthcare and pensions, weekends, as well as the eradication of child labor and the cap on working hours. And what about the evolution of these standards in developing nations? Advances have been made but convergence is a long ways away considering the lack of efficient democratic institutions, as the following chapter will demonstrate. The battles these countries will undergo in the name of these rights have hardly begun.

But what does putting people first mean? Is there a right way to do it? Today, the average social spending for OECD countries is around 25%. However, spending is not *always* the answer. France spends 32,5% of its GDP on social policies and it is in a dire economic and *social* state. This chapter will look at *how* exceedingly high social standards can create more social pain than good. Balance is paramount. Over the past 40 years, France has made radical decisions like the 35-hour workweek, without taking into account the country's competitive landscape with similar neighboring countries. It enabled a systemic entitlement where citizens have more rights than duties. The government passed ineffectual labor laws overly protecting employees, which froze employment

(since firing was too burdensome), thus creating major unemployment. An ambitious social model is to be encouraged but the French way is a counter example. The more ambitious the model, the more frugal and effective it should be to avoid eroding the country's competitiveness and ability to pay for this model. This chapter will delve into *what not to do*.

Chapter VI - Still A Ways To Go

As for the developing world, there is no denying that global trade has been instrumental in lifting hundreds of millions from poverty. The numbers are staggering: in 1981, 44.3% of the world's population lived under the poverty line, today that figure has drastically dropped to 9.6%. Though poverty has substantially decreased, 9.5 million people still work in "*slave-like conditions*" according to the International Labor Organization.

The promise was that free trade would increase living standards for people in developing countries, and that social and labor standards would converge to reach Western levels. As mentioned above, there has been major progress on the poverty front, but the evolution of standards is glacially slow. For example, automobile equipment worker salaries in Mexico are still \$5 an hour – a miniscule increase since NAFTA was signed twenty-five years ago. This chapter explores what life looks like on the other side of the world: Poor labor standards, namely excessive hours, discrimination, suppression of trade unions, low wages, and shoddy safety measures have resulted in a tapestry of tragedies across Asia. Developing nations, as their name implies, are undergoing an evolution. They have not yet fought the social battles developed nations spent over a century striving for. They are relatively much younger, many of them having gained independence from colonial rule in the past hundred years. The Rhana Plaza tragedy in Bangladesh, where in 2013, 1,100 people were killed due to a shoddily built garment building, is an example of the strides that must be taken to protect factory workers. In addition to poor working conditions, social benefits are more show than substance. For example, though China has enacted welfare legislation, social assistance remains inadequate to combat poverty. As for social insurance, the funds are often misallocated and vulnerable to local corruption. A 2013 study by the United Nations Research Institute for Social Development on welfare in China paints a bleak picture: "*The experience so far...suggests that the system, in all components of social insurance, is rife with irregularities, such as non-participation of enterprises, shortfalls in contributions, mispayment of benefits to non-eligible persons...and considerable local misappropriation of social insurance funds, including corrupt means.*"

Under the pressure of consumer groups, efforts have been made by multi-national corporations to rectify these shameful practices, specifically through codes of conducts and corporate social responsibility measures, but factories will slide if higher labor costs are costing them their financial edge. These corporations have a conflict of interest when applying these measures: even if they hire outside investigators, who are seemingly objective, it is their choice and money, which inevitably affects the independence of the inquiry. And to correct this situation, these firms would have to lower their margins and increase their prices. **This chapter highlights the issue that free trade with developing countries has not engendered, as hoped, a democratic movement and substantially increased wages and standards.**

Chapter VII – A Slow Start to Free Trade: From 1945 to the 1970s

How did we get ourselves into a situation where international trade negotiators never took these significant differences in labor, social, and environmental standards seriously? This chapter will take the reader back in time to the rise of global trade, the institution responsible for regulating it, and the theories behind them. It is a historical walkthrough, which also shines a light on the lack of political support for social and labor concerns at the time. Post 1945, global leaders welcomed trade between developed and developing nations. The United States, Canada, and the United Kingdom led twenty-three countries into negotiations to put an end to decades of protectionism. They ushered in a new era of international institutions and trade regulation via the breaking down of tariffs barriers, aka import and export restrictions, crystallized by the creation of the General Agreement on Tariffs and Trade (“GATT”) in 1947. Major exporters (i.e. developed nations) dominated the initial GATT negotiations. Their main objective was to reduce import barriers in countries where their exporters had a supplying interest. As a result, the agreement had primarily an economic goal; social issues did not make the final cut. This trading system existed until 1995, and replaced by the World Trade Organization. The latter’s establishment treaty extended the GATT’s narrow economic focus to the sphere of social welfare. Sustainable development and the protection of the environment made it to the list of the organization’s objectives, though not in an operational sense. In other words, it was mostly talk, but no action.

Lowering trade barriers and displacing low-skilled industries, especially apparel, to developing countries provided jobs to millions of people, especially women, who could make a life for themselves outside the home. However, the developed world, rightfully concerned with potential ‘*market disruption*’ by a heavy import of cotton textile production, proposed a short-term quota agreement in 1974: the Multi-Fiber agreement (“MFA”), to limit the large amounts of cotton

coming in from Asia. The U.S. and Europe argued this was a necessary measure to adjust to imports considering the comparative advantage of labor-intensive production and poor social standards, which allow for low-labor costs, in developing nations. The MFA was a gradual, limited form of trade focused on one industrial segment. It contributed to helping new economies develop their apparel industry within a regulatory framework, all the while protecting importing industries from massive incoming competition and preventing tremendous job losses in developed countries.

CHAPTER VIII– The Japanese Manufacturing Shock and The Trade Rush

In the historical timeline of globalization, there is no more crucial point than the major tilt towards the fast-paced, trade craze, which began in the 1980s. Before that, trade was gradual, and limited to a small number of industries. Then, this tempered approach to international trade came to a halt. This chapter delves into the question: *What happened?* Japan happened. To curb the industrial and technological threat coming from Japan in the 70s and 80s, Capitol Hill and the EU imposed a wide range of trade restrictions. Japan began exporting well-manufactured, fuel-efficient automobiles, as well as compact, and high-quality consumer electronics, at low cost. American and European firms began to fret: they had to catch up. They realized that their manufacturing processes were no longer competitive and outdated. The Japanese had invented *just-in-time* manufacturing to reduce inventories and generalized quality circles to empower their employees to improve quality at each level of production. Western manufacturers had to adjust or perish. They could learn from the Japanese or choose a different strategy. Companies were faced with two strategic directions: the easy road to quick profit, with a hefty social cost, or the longer, arduous road to sustainable growth with limited social impact. The easy road was chosen. Firms off-shored manufacturing massively to low-labor cost countries, accelerating a trend that had started a few decades earlier. This option went hand in hand with the corporate transformation that occurred in the 80s. The decade crystallized the shift of U.S. enterprises from manufacturing to finance, and corporate ownership from individuals to financial institutions. How did multi-national corporations convince politicians and the public to take the easy road? Their strategy was to gain support from political decision makers, by claiming that free trade would create jobs, not displace them.

The 80s were a turning point: the US-Japanese trade war led corporations to act increasingly outside their borders to seek low labor cost quickly, and adopt an easier, quicker-profit mentality. The decade ushered in an almost zealous-like enthusiasm from nations to speed up and expand the trading game, as illustrated by NAFTA in 1993, the creation of the WTO in 1995, and the accession of China to the organization in 2001, which the following chapters will discuss in

detail. Meanwhile, developing nations had officially joined the ranks of developed nations in designing the international trade arena, thus revealing the new face of globalization.

CHAPTER IX– NAFTA & The Success of Aggressive Corporate Lobbying

For decades, NAFTA had not been a platform concern for politicians, yet it turned into a hot-button issue again when Donald Trump decided to make the deal a major part of his campaign. The deal has been highly criticized as of late, with politicians on the left and the right blaming the agreement for job losses in manufacturing in a number of U.S. states. 1992 Presidential candidate Ross Perot coined the now famous phrase of the “giant sucking sound,” with reference to the effects NAFTA would have on American jobs. This chapter traces NAFTA’s origin story and *how* corporate lobbies ran the show. Understanding NAFTA will give the reader a better understanding of the anger and resentment the American working class carried with them into the voting booth in 2016.

Corporate America argued that NAFTA would open the door to new markets, and low-wage regions would benefit consumers, create jobs, and give U.S. enterprises a competitive edge in the global market. USA*NAFTA was the largest pro-NAFTA organization in the United States, taking under its wing 1,200 member organizations, mostly of U.S. companies. In Washington, USA*NAFTA ran prime-time TV spots, half-page ads in newspapers selling the agreement as “good for jobs, good for U.S.,” it sponsored events such as a breakfast meeting for new members of Congress with pro-NAFTA business leaders. Another successful lobbying scheme was the “grass roots” movement: major companies organized into “state captains,” who’s mission was to garner support for the agreement with governors, mayors, state legislators, and the business community. The “state captains” were usually companies that have strongly impacted their states: Bank of America Corp. in California, GE in Massachusetts, etc.

These groups, which had mostly abandoned the idea of remaining competitive in manufacturing, choosing instead to focus their attention to lower-cost and less-demanding work forces in countries with minimal labor rights and low-wages, were selling job creation to decision-makers. Those responsible for displacing manufacturing jobs were putting their money on the “you lose some to win some later” bet. Unions on the other hand, despite being vocal, did not have sufficient funds to aggressively lobby the way Corporate America did. **This chapter delves into this disparity and shows how the job-loss warnings of the unions were drowned out by lobbied frenzy.**

CHAPTER X – Economic Theories to the Rescue? The New International Division of Labor and Comparative Advantage

This chapter covers the more *philosophical* side of international trade and analyzes the theories that have justified the existence of today's unbalanced practices. What are the theories of global division of labor and comparative advantage and how did politicians and corporations utilize them? In the 18th century until the mid 20th, division was local; specific tasks were limited to people not places. However, with the evolution of technology and its effects on transport and communication, this concept progressed outside of its borders. In the first international division of labor, developing nations were tasked with supplying minerals and agricultural commodities to the developed world. In its latest version, the New International Division of Labor, developed nations deindustrialized in favor of more high-skilled tasks, leaving low-skilled jobs to developing economies. This model has permeated all industries: apparel companies, furniture, and in the last twenty years or so, electronics and telecommunications.

The eighteenth-century economist David Ricardo developed the theory of comparative advantage, which suggests that when one country can produce a good or service at a lower opportunity cost than another, it will increase its economic welfare. This chapter revisits the generally accepted understanding that low-labor costs are considered the most common comparative advantage a country can offer. At first glance, it is only pragmatic to consider that cost-efficiency is a strategy to keep a seat at the trading table. The transfer of low-value jobs to developing countries has helped these places emerge. But have the concepts of the international division of labor and comparative advantage gone too far? Economists such as Jagdish N. Bhagwati and Paul Krugman, accepted the new landscapes drawn by this global shift. To them, *“the migration to low-wage areas [is] an adjustment caused by changes in international comparative advantage.”* Corporate lobbies, propped by mainline economic theory, were legitimized. This strategy of hailing the theory of comparative advantage and its counterpart, the division of labor, as the immutable divine force behind all business decisions, proved successful, in that it quashed all suspicion. At no point was the notion of “unfair” comparative advantage raised as a major objection and this chapter asks *why?* **Isn't advocating for low-cost labor as a comparative advantage undermining 150 years of social progress? Isn't it just profits before people?**

CHAPTER XI – The Big Bang: China's Entry into the WTO

By the turn of the millennium, China had become one of the top ten trading countries in the world. For the U.S. and the EU, this was the *quid pro quo* deal of a lifetime: signing off on China's entry meant being first in line to take advantage of the country's liberalization agenda. International firms would have access to one of the largest markets in the world. And just as importantly, they would have access to a cheaper and wider workforce thanks to China's immense population and its low labor and social standards. Developed nations also hoped that by demanding of China to convert to a market economy, the hurdles to doing business there would dissipate. Heavily subsidized industries, state-owned enterprises, and forced technology transfers would become a thing of the past. In the end, the WTO members had hoped for the best without preparing for the worst. China has not become a market economy in the eyes of its American and European trade partners. Western powers were undoubtedly naïve, but they were also far too focused on their vested interests to genuinely stop to question the dance they thought they were leading.

Negotiations between China and the WTO members lasted fifteen years. So what happened? In the years between China's application and accession, the populous nation had made shallow but politically impactful attempts at liberalizing its economy, especially by opening its doors to foreign direct investment. Developed nations were inclined to believe that given the wide range and severity of accession rules, China would not have accepted if it were not ready and willing to follow them.

And how is China fairing today? Joining the WTO proved profitable as open trade provided an opportunity to expand the Chinese economy to the service sector and technology. Wages have increased in China. However, it is not out of the woods yet. Despite attempts to filter dissident opinions stemming from beyond its borders, social media has become a beacon of enlightenment for millions. What does this mean for China's communist rule? The country has proven that economic prosperity can thrive under an autocratic regime. What does this mean for the Western ideal of democracy and economic prosperity? **This chapter on China will take a look at these issues, illustrating how China's entry into the world trading system radically upended the game.** The following chapter delves into the opening and growth of another Eastern force.

Chapter XII: The European Union and the Eastern Rush

The fall of the Berlin Wall signaled the Iron Curtain's last hurrah. Communism was dead...and yet. The Eastern bloc was shell-shocked and in dire need of security. The European Community, wary of a potential rebirth of totalitarianism, had to act quickly to ensure that Central and Eastern

European countries would embrace democracy. As early as 1993, the European Commission outlined the criteria these countries would have to follow in order to join the Union: democratic institutions; rule of law; protection of minorities; market economies and the ability to compete equally with other EU countries. **This chapter follows the accession of this group and the consequences of integrating unstable, transitional economies into a system made up mostly of wealthy economies.** The European Community was confident – not only was it the *right* thing to do, from a purely moralistic standpoint – it was an economic no brainer (read low-cost labor). The Southern states like Portugal, Greece, and Spain were a fruitful addition. How could this *not* be the same? Well, for one, when those states joined, their GDP per capita was 60-70% of the EU average not 10-30% of that, like the Baltics. The EU, convinced of the internal market's powers for growth, found itself having to recalibrate when the Eastern enlargement turned into social dumping. The fact that 10% of Romanians and Lithuanians live in other Member States means that social and labor convergence has still not occurred. What happened to the promises made pre-accession? This chapter takes a look.

The EU-12's membership doubled the amount of labor mobility with the Union, and this is likely to keep happening as long as income disparities remain so large. Bulgarians make an hourly average of €5,30, while the European average is €26,6. But labor costs alone are not solely responsible for social dumping; social conditions (e.g. poor healthcare, restricted freedom of speech) are also a major reason for leaving. A heavy influx of social dumping in the past fifteen years, mixed in with a major recession, and nearby offshoring has resulted in a *major* upheaval of populism and Euro-skepticism in the original Member States. Heavy job losses, which have devastated a number of communities, have had major political repercussions. Meanwhile, though wage convergence and social conditions in EU-12 countries truly improved between the 90s, this came to a halt with the 2009 recession. **So what now? This chapter will also look at the current EU proposals for convergence, including the European Social Fund and the European Pillar of Social Rights, which are garnering serious attention at the moment.**

CHAPTER XIII– A Matter of Urgency

This chapter explains *why* time is of the essence to remedy the international trading system looking at three different issues: automation, the auto industry, and the political power balance. As expressed earlier, offshoring is not solely responsible for today's dwindling middle-class and the surge in populism. Automation is also a major contributing factor. With the rise of Artificial Intelligence (AI), automation will pick up speed. According to a recent study by McKinsey Global Institute, 73 million U.S. jobs could be destroyed by 2030 due to automation. AI will eradicate

lower-skilled jobs, which the middle-class counts on. Robots are on their way to eradicate human involvement in logistics and driverless cars will replace drivers. The issue is, these jobs are a stable source of income for the middle-class in the West and do not run the risk of being offshored. True, many new jobs will be created thanks to AI, but will surely require more sophisticated skills. Better training and education are definite answers but the harsh truth is not everyone is made to be a “knowledge worker.” **Manufacturing positions have flown the coop as a result of offshoring and automation, and the service industry is next... so what happens to these people?**

Millions of jobs in the auto-industry could be lost to competition from China. This industry is the bedrock of the manufacturing industry – representing 7.25 million jobs in the US and 12 million in Europe. Yet, China has caught up at a remarkable speed – producing 2,5 more automobiles yearly than the former and has ten leading brands no one in the West has heard of – yet. However, the quality of these cars is now comparable to what we have at home and are being sold at *highly* competitive prices. As China is *also* taking the lead in electric vehicles with over 500 EV start up’s – time is of the essence.

To drive the point of economic and political “disbalance” even further, consider the current efforts being led by governments in developed nations to combat climate change. New York state announced its commitment to achieve carbon-neutrality by 2050. The EU has expressed a similar desire, which for now has been muted by the low-cost industrial havens of Poland, Hungary, the Czech Republic, and Estonia. Despite this reticence, member states are individually forging on with this admirable yet expensive goal. The math is evident - fossil fuels are cheaper (e.g. coal) than renewable energy. While developing nations have no intention of letting the traditional method go any time soon, developed nations are desperate to convert to cleaner, more sustainable methods. The more stringent the environmental legislation, the more doing business becomes expensive for companies and consumers. Will developing countries add low-environmental costs to their list of comparative advantages within the Global Value Chain? And if so, how will developed nations compete?

Finally, the international power balance is shifting, making it harder for democracy to withstand. Ten years ago, if someone asked, “Who runs the world?” the answer would have been the U.S. Today, that reply lacks conviction. China is emerging, the U.S. is swinging between withdrawal and imposition, and Europe is fighting to save its unity. The world used to revolve around the *Washington Consensus*, inspired by Francis Fukuyama’s famous book *The End of History*: the fall of the USSR would infuse a liberal economy into formerly repressed states. Former political

enemies would now be economic allies. Today, that assertion rings hollow as Beijing has demonstrated that a prosperous economy does not need liberal values to thrive. Under the newly minted *Beijing Consensus*, nations do not have to abide by humanist values or civil rights to attract business. China is dominating the African continent by investing heavily in industry and infrastructure. In Eastern Europe, China is also playing the role of generous benefactor. In the Czech Republic, Beijing has bought an airline, a media conglomerate, and a football team. China's "hush-money" is yielding its intended returns: the country watered down an EU initiative to agree on new screening rules for foreign investments. Western powers are sitting back while China inserts its influence on countries, who, down the line, will have no choice but to side with it on matters of trade and politics. The West still has leverage – but as time goes by, it is wearing thin.

CHAPTER XIV- Thinking Outside the Box, Promising Trends in Trade and Social Programs

This chapter discusses the current private and public efforts being made to rectify unbalanced free trade and to preserve and promote social, labor, and environmental norms in commercial practices. In the past twenty years, the multilateral route for trade deals has come to a standstill. It isn't hard to see why: negotiating terms between 164 different countries, with entirely different social, economic, and political backgrounds, is no easy feat. Social, labor, and environmental rights are gaining momentum in trade, just not in the traditional, multilateral way we've become accustomed to. Bilateral and regional preferential trade agreements ("PTAs") are leading the pack in addressing social, labor and environmental issues. Protection chapters and clauses have become common in the last decade's PTAs. But will these international objectives work? Or should multi-national corporations, through promises of "corporate social responsibility" lead the way in defending these values abroad? Or should an already established organization, like the World Trade Organization, in tandem with other international agencies be the push towards changes in national legislation and public conduct?

The EU considers itself, and rightfully so, the archetype of social progress and believes it has a responsibility towards its population to uphold that image. However, developing countries are not as encouraging and supportive of this agenda. In their eyes, this looks more like neo-colonialism and green protectionism than free and fair world trade. Is this response shocking? This is a thorny and tricky subject. Poorer countries with basic health, safety, and education matters tend to look at stronger environmental protection and social issues like maternity leave and retirement plans as "first world problems." These are not their *immediate* concerns and they do not want to be told what to do.... again. Where does national sovereignty and interest end and concern for global well-being begin? It is possible for both to exist – what matters is *how* nations go about it. How can the

EU, or any global institution, convince the developing world to act on these legitimate issues? It is time to rethink the way we influence outside our borders.

This chapter will also examine existing social programs in developing countries and the work currently being done to improve standards in these areas. There are innovative, low-cost and impactful projects that deserve the attention.

CHAPTER XV – Trade Related Solutions

This chapter is the *how-to* guide to fix the current trading system – to level the playing field, so to speak, so that free trade between developed and developing countries gradually to be unbalanced, unethical and ultimately irresponsible and unsustainable. The idea is to make social, labor, and environmental standards an integral part of all major trade agreement in a feasible, pragmatic way. A distinction must be made between industries since it is unrealistic for politicians to promise to bring back those that are gone. It is too late to level the playing field with those who have been displaced massively and have been gone for a long time (i.e. textile, toys, shoemaking, and garment manufacturing). It would be too costly for consumers in the West and too impactful for those in developing countries who need these jobs and who have to be given a chance to industrialize. This book refers to these as **Standard Industries**. Protectionist measures will not bring them back or minimize the trade deficit. However, actions should be conducted to create an incentive for developing countries to gradually converge in these standard industries but the goal is not to level the playing field immediately.

Conversely, there is also a **Strategic Industries** list. These types of industries are powerful players in developed economies, as well as in emerging economies like China, and considered strategic due to their national security components. This segment includes energy system manufacturers, telecommunications equipment and devises, electronics, manufacturing of type of means of transportation of all kinds (cars, trucks, planes, trains, boats...) software and artificial intelligence, machine tools and robot manufacturers, construction equipment manufacturers, defense equipment, pharmaceutical, biomedicine and health equipment manufacturing, and mining. Here, actions should be conducted to level the playing field immediately and stop the massive offshoring of jobs, expertise and strategic interest away from developed countries. These actions should also help bring back some already lost jobs and expertise in strategic industries.

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, investment incentive schemes). A third-party institution or organization will control the destination of these funds to minimize ineffective uses. The goal is to help re-establish the level playing field and to create incentives to improve social and labor standards. For the 47 least developed countries (LDC) listed by the UN, the entirety of the money collected would be invested in the LDC. This section will include an analysis on development aid and the work currently being done in this department. Assuredly, wealthy nation have an ethical and moral responsibility towards Least Developed Countries. Yet, it is also strategically astute to help them succeed. Developed nations would curb massive economic immigration, thus civil unrest at home, by helping developing nations create and sustain productivity and resources at home. Regarding Standard Industries, the CSLG would not exceed 10% for the worst situations. It would be split in half between an evaluation of the level of social spending levels and for the other half on an 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 company level requires a far deeper analysis but will be closer to reality. 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%. The adherence to the ILO's five core labor standard will be taken into account and increase more or less the CSLG for Strategic Industries. The lower the adherence, the higher the impact on the CSLG. The book will go into more details on these mechanisms and give examples.

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? In addition, The cost differences between responsible mining and non-responsible mining should be taken into account to level the playing field and enable fair competition in the this sector to prevent situations like the extreme dependency of the West on China for rare earth elements. 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.