

Reshaping Globalisation with A Green Trade Strategy

Article by Katharina Dröge

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The international trade system that governs much of the world's exchange is under threat, partly due to its failure to protect workers, consumers, and the environment from the pressures of a global market dominated by multinationals. Yet green responses to this tide of resentment and rejection should avoid the trap of isolationism. What is needed instead is a bold rethink of trade agreements and how they are written so that environmental protection and social rights can be upheld, alongside the interests of business.

First Brexit, then Donald Trump and afterwards the elections in France and Germany with Marine Le Pen and a strong Alternative for Deutschland. In Austria and Italy the extremists are already sitting in government and in Hungary Viktor Orbán has had carte blanche to rebuild the state at his pleasure for years. We are experiencing a sharp rise in nationalism and right-wing extremism.

In many cases, this nationalism goes hand in hand with the pursuit of economic independence, protectionism, and trade barriers. The looming trade war between the United States and practically the rest of the world (but most importantly China) has dominated the media in recent months. While the majority fears the consequences of escalating tariffs, there seems to be an increasing number of people looking back to the times of presumably economically independent national states with nostalgia.

Which lessons should we as politicians draw from this apparent desire for a backlash? While arriving at a definite answer is a complex task, part of the problem is that politicians in Europe and the US, regardless of their party affiliation, have given up on their duty to shape structural change and set rules for a globalised economy. They failed to develop a satisfying answer for whole sectors of industry closing down. They did not contain the power of ever-bigger multinational corporations. And nor did they manage to limit and prevent the exploitation of workers and the environment in the context of global competition. This left a vacuum where nationalists were able to step in.

Absurdly, one of the most popular suggestions in the 'trade war' debate with the USA is reviving the EU-US Transatlantic Trade and Investment Partnership (TTIP). Anyone calling for TTIP today has not understood the problem at all. Advocates argue that with TTIP President Trump would not be able not threaten the EU by imposing tariffs. This argument is short sighted. President Trump does not respect international agreements. He has shown that very clearly with the Paris Climate Agreement, the Iran nuclear deal, and also with the North American Free Trade Agreement (NAFTA), as Mexico and Canada painfully had to realise. Trump threatened to terminate the agreement to put Mexico and Canada under pressure and drive through a renegotiation of NAFTA. Furthermore, had trade policy been different in recent decades, we might not have had to deal with a President Trump in the first place. Trade agreements like TTIP are part of the problem.

TTIP embodied everything that makes prevalent trade policy so problematic. It promotes unbridled free trade without rules, but with a whole selection of rights for large businesses. The same is true for almost all free trade agreements that the EU is currently negotiating.

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Trade agreements like TTIP do not focus on cutting tariffs anymore, but on creating perfect investment environments for companies. The majority of recent trade agreements include so-called investor-state-dispute-

settlement mechanisms (ISDS) to this purpose. In ISDS companies can sue states before private tribunals based on legal clauses such as “indirect expropriation” or “fair and equitable treatment”. Due to the vagueness of these clauses, firms have been able to attack new regulations protecting consumers or the environment in many cases where these regulations reduced the expected profits of the firms. This way, ISDS creates privileges for companies while putting public regulation under pressure. At the same time, social and environmental standards are often missing in trade agreements. In cases where they are included, it is not possible to sanction their violation and the standards become worthless.

Also, the so-called ‘precautionary principle’ is often missing from such treaties. This European regulatory principle allows prohibiting possibly risky products even if their harmfulness is not entirely proven. It is therefore essential to make sure that harmful products cannot get to the consumers and its absence from trade agreements weakens European consumer protection.

Overall, prevalent trade policy has given many people a feeling of injustice and powerlessness in the face of rapid globalisation and the power of huge multinationals. Instead of at least attempting to restrict the influence of corporate power, politics has given them a place at the table of trade negotiations. At the same time, economic policy – still under the influence of Chicago school economics – increasingly left earlier own regulatory aspirations behind. Donald Trump’s eagerness to issue decrees and bring back economic nationalism may have been welcomed by people as a departure from previous inaction.

A fair trade policy to shape globalisation

How can green politics react to that? What would a green strategy for trade policy look like? To be clear, protectionism can never be the answer. Nobody wins trade wars. Protectionism causes a downward spiral, which is detrimental to everybody, but worst for the poorest in our societies. We all agree that trade generally increases the size of the cake that can be distributed. However, trade policy as it prevails today does not increase everyone’s share of the cake. Those who benefit most are in many cases those who already have a lot. Consumer protection and the environment are not taken into account. Therefore, we have to define a fair trade policy that makes it possible to shape globalisation according to our green values. A trade policy that protects the environment instead of sacrificing it for business interests. A trade policy that strengthens labour rights instead of weakening them. A trade policy that enables the state to regulate if necessary instead of tying its hands. And a trade policy that protects consumers instead of putting them at risk.

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What elements does a green trade strategy need to reach these goals? Fair trade agreements with high standards and equal rights for civilians, states, and companies are the most building blocks of a green trade strategy.

For a start, we should only conclude trade agreements with countries that have signed the Paris Climate Agreement and the United Nations Sustainable Development Goals. Second, to make sure that these agreements are observed, they must be enshrined in the trade treaty as well. Fair trade agreements need strong social, ecological, and human rights standards to protect both people and the environment. These standards can help to create a level-playing field for global competition. Firms that exploit workers or the environment are price dumping to the detriment of sustainable firms that respect labour rights. If we make clear that we do not tolerate ecological or social dumping, we can create the incentives for sustainable production. In contrast to current trade agreements, social, ecological, and human rights standards should be made an equitable part of the treaty and its violation be sanctioned or sued just as any other part. Also, we should break with the unfair practice of ISDS, where investors can sue states. And in order to protect consumers, we have to make sure that no section of the treaty can prevent the state from

regulating, by giving the precautionary principle a prominent position in the text of any treaty and exempting public services from liberalisation.

If we design future trade agreements in a way that meets all these requirements, we will make a huge step towards a fair trade policy that is in harmony with the environment and that aspires to shape globalisation. However, are fair trade agreements going to be enough to convince people who voted for Trump or Brexit that national isolation is the wrong answer? Probably not. To empower citizens in today's economy they must be accompanied by smart regional industrial policies as well as powerful competition control.

Proactive policy to facilitate structural change

Technical innovations and trade exposure cause economic upheavals every once in a while. Innovations like digital photography or the invention of smartphones have been springboards for the economy. However, some of the market players were not fast enough to use them. Kodak or Nokia disappeared from the scene and entire regions dependent on these industries followed them. Similarly, companies and workers in the United States' rust belt were affected by automation as well as competition from abroad. Fair trade can reduce the incentive to relocate production to countries where workers or the environment are exploited. But differences in wages, skills, and resources will always lead to an international division of labour and shift production around the globe.

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Although economies in total generally benefit from these changes, they produce losers too. These can be firms, workers, and entire regions. If we ignore the losers of structural changes, we push them into the hands of populists and nationalists. Hence, politics has to recognise these changes in time and find future opportunities for the affected regions and people. Once the upheavals have occurred and bankruptcies and unemployment are pervasive, it may be already too late. Therefore, specific plans to shape structural changes are necessary before people feel their effects. These plans should vary from region to region, but retraining and further education are definitely a part of it and need to be possible also for people in the middle of their lives. Also, the state should act as an investor of first resort and support innovation in these regions with a clear mission.

Up to the present day, structural, regional, and industrial policies are in many cases just a bunch of unsteady measures. They can vary from subsidies for firms in certain regions or sectors to the strategic allocation of a new governmental agency to a city with high unemployment. We need to better analyse what really works and give structural policy the attention it deserves ensure future prosperity for the losers of globalisation and technological change.

Strong competition policy to rebalance market power

Setting limits to the power of multinationals by better trade agreements is important, but not enough. Excessive market concentration is a problem, too. It affects income distribution, the environment, and even democracy. Therefore, powerful competition policy is essential.

Internet giants like Google or Facebook have enormous market power and have access to data of millions of people. This gives them political as well as economic power, as recent elections in the US have shown. We need to talk about better regulation and stricter merger control here. The European Data Protection Regulation for example introduced the right for consumers to move their data from one digital platform to another, which is a basic requirement for competition in this field. However, it is not sufficient. In the social media and messenger market, Facebook and its chat app WhatsApp are the indisputable market leaders due to so-called 'network effects'. They

lead an ever-increasing number of consumers to the one big platform in the market, which most of their friends and acquaintances already use. The introduction of 'interoperability' could break this mechanism. It would require services such as WhatsApp and Threema to exchange messages just as Gmail and Yahoo do.

At the same time, we need stricter merger control. The fact that antitrust authorities did not stop Facebook from buying its emerging competitors Instagram and WhatsApp was a big mistake. Lowering the threshold for merger control at European level is one of the lessons we should draw from this. Besides strictly economic factors, competition policy must also consider other aspects such as the effects of market concentration on the environment or food sovereignty. The merger of Bayer and Monsanto shows that with this oversight, huge firms will emerge with the power to control the food supply of entire states. Finally, globalisation has also affected competition policy. National and even European competition law can often not stop the emergence of huge corporations elsewhere, for example in China. Global competition policy is desirable, but hard to achieve. A first step could be a competition chapter in fair trade agreements.

Economic policy as an antidote to populism

National egoism, populism, and the threat of trade wars put liberal Europe under pressure. Trumps isolationist policy gave rise to the call for further trade integration with the rest of the world and a revival of TTIP. However, the prevalent trade policy with its unfair privileges for enterprises cannot be the solution, but is rather part of the problem. The time is now for a green strategy for fair trade agreements with high standards for the environment, workers, and human rights that protects consumers instead of multinationals. In order to protect international rule-based trade, the EU has to form an alliance for fair trade with all countries that are willing to participate, and that commit to the Paris agreement and multilateral rules. Flanked by a structural policy that lessens the effects of economic upheavals and an international competition that limits the power of huge firms, this green economic strategy is a counter to the current policy of isolation. However, in contrast to TTIP and existing trade agreements, it does not hand over the reins to big businesses, but allows us to shape globalisation, drive innovation, and protect competition.



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