



Beyond the coronavirus pandemic – Achieving a fair global economy for the 21st century

Key points

- The coronavirus pandemic has revealed the vulnerabilities of the global economy.
- Still, the causes and shortcomings of its persisting legitimacy crisis are rooted much deeper and are reinforced by the current EU trade and investment agenda.
- Accordingly, AK calls for a fundamental realignment of the EU trade and investment policy, instead of narrowly focussing on immediate policy corrections in the aftermath of the pandemic.
- This means, above all, ensuring a just and fair global economy that places public welfare above private profit interests.
- Additionally, instead of focussing on open strategic autonomy, AK calls for a prosperity-led strategic autonomy that takes into account the growing momentum for active economic policy that places concerns over the security of supply over profit and efficiency considerations.

Background

In June 2020, the European Commission announced a comprehensive review of the EU trade and investment policy. A public consultation was launched in response to vulnerabilities of global value chains that became apparent during the coronavirus pandemic and which lead to a growing public debate about the ability of the current EU trade and investment policy to address the changing global economy. Based on the contributions of the consultation, the European Commission is to publish a Communication outlining the future EU trade and investment policy in the first quarter of 2021.

This policy brief is a shortened version of AK's detailed statement submitted to the public consultation. It highlights the need for a comprehensive realignment of the EU trade and investment policy that not only focusses on immediate policy corrections in the aftermath of the pandemic, but above all acknowledges its fundamental shortcomings: namely, the empty promises of prosperity through liberalisation of the global economy, the lack of protection and enforcements of workers', environmental and human rights as well as the constrains put on public policy space through investment protections and encompassing liberalisation agenda. A fair global economy can only be achieved by an EU trade and investment policy that places public welfare above private profit.

Main findings

Empty promises and the ongoing crisis of legitimacy call for a new trade policy

Trade policy has not delivered on its promises: the free movement of capital, market liberalisation and deregulation have by no means automatically resulted in greater prosperity, economic growth and better conditions for workers across the globe. On the contrary, in many cases they have created structural problems and greater vulnerabilities such as the deterioration of the employment structures (i.e. precarious employment), the erosion of economic and social policy space, and increasing inequality.

The coronavirus pandemic has once more put a spotlight on the downsides of globalisation. The EU trade and investment policy has been instrumental in creating the vulnerabilities in the first place by favouring the relocation of parts of value creation to countries with lower wages and lower labour and environmental standards based purely on cost considerations and the pursuit of profit for decades. Ultimately, this has also put pressure on wage levels and working conditions in the EU by prioritising profit interests of transnational corporations over widely shared prosperity, good working conditions and environmental and climate protection.

Additionally, recognising that it is the global value chains and long transport routes which contribute to a further increase in greenhouse gas emissions and devastating ecological distortions (e.g. climate-damaging deforestation in the Amazon rainforest), makes a fundamental change of the policy agenda in light of the climate crisis even more urgent.

Accordingly, we should not narrow the policy responses to tackling the immediate vulnerabilities in international trade exposed by the coronavirus pandemic, but instead recognise that it is this very trade and investment policy focusing overwhelmingly on the liberalisation and deregulation of markets across the globe, that has failed, too.

Unfortunately, rather than a fundamental change in the EU trade and investment policy, we currently witness the restoration of neoliberal policy responses by the European Commission. The most recent example is the continued push for the signing and ratification of the EU-Mercosur trade deal while being aware of its potentially severe consequences for people and society as well as for climate. The European Commission's pledges to resume leadership on issues of climate change, sustainability and respect for labour standards and human rights are ineffective when

undermined by its own policies, particularly trade and investment policies.

From Open Strategic Autonomy to a prosperity-led strategic autonomy

The ongoing coronavirus pandemic has revealed the vulnerabilities of international trade and profit driven global production networks. Although the causes of supply shortages and disruptions in the beginning of the pandemic varied depending on the specific sector and product category, they nevertheless brought the high dependency of the EU on internationally sourced inputs as well as medical products to the forefront of the public debate.

In response, the European Commission has emphasised the need to pursue a model of "Open Strategic Autonomy" (OSA) that gives greater attention to security of supply concerns in some areas such as health while at the same time calling for a stronger diversification of global supply chains and trade openness. Yet, diversification based solely on increasing trade within the framework of bilateral trade agreements proved to reinforce rather than tackle the downsides of globalisation in the past. Ultimately, the concept remains vague and in some parts even contradictory. While the policy implications of a stronger focus on OSA will only be uncovered in the coming months and years, there are strong signs that the European Commission will stick to its current trade strategy with only minor corrections.

Still, concerns over the security of supply of essential products have gained momentum opening a window of opportunity to realign the EU's trade and investment policy. Accordingly, instead of increasing the openness of the EU economy even further, concerns to ensure greater prosperity for all must be central to an EU trade policy appropriate for the post-Covid-19 world in the 21st century. This means taking into account not only economic growth but also equal distribution of prosperity, quality of life, full employment and good jobs as well as the environment.

There is now much greater recognition of the strengths of a proactive economic policy, maintaining and (re-)building independent production capacities, the reshoring of strategically important production and effective investment controls as well as comprehensive public crisis infrastructures and public services. Strengthening and developing productive capacities within the EU is key when it comes to increasing the resilience of the EU economy and facing upcoming crises. Transparent and democratic processes that integrate trade union and the civil society concerns are a prerequisite for a renewed trade policy.

Workers, environmental and human rights still not adequately protected in international trade

One reason for the persistent crisis of the international trading system and its lack of legitimacy, especially with respect to the World Trade Organisation (WTO), is its failure to address social and environmental issues of globalisation, while at the same time pursuing a policy of further deregulation. In 2020, the International Trade Union Confederation (ITUC) recorded a seven-year high in violations of workers' rights across the globe. The coronavirus pandemic is likely to put additional strain on workers.

Up to this point, the WTO is still lacking a clear reference to the core labour standards of the International Labour Organisation (ILO) and precedence of multilateral environmental agreements over liberalisation objectives. Although we increasingly find social and environmental clauses in bilateral trade agreements, which reference core international labour and environmental standards, they too have not delivered on improving the situation across the globe.

More recent bilateral trade agreements of the EU now include a special chapter dedicated to workers' and human rights, the environment and climate. Nevertheless, these so-called trade and sustainable development (TSD) chapters have proven to lack effective means of enforcement, e.g., South Korea's violation of trade union rights and refusal to ratify the outstanding core labour standards for years. Since provisions of TSD chapters are not subject to the dispute-settlement-mechanism of the trade agreement, there is no possibility for sanctions in case EU trading partners fail to ratify, implement and apply labour and environmental standards. Political pressure from trade unions, civil society as well as some EU member states is clearly rising against the backdrop of the climate crisis and ongoing violations of workers' and human rights calling on the European Commission to upgrade its commitment.

The recently concluded trade agreement between the US, Mexico and Canada (USMCA) might prove to be a good model for effectively enforcing labour and environmental standards through targeted sanctions in bilateral trade agreements. In addition, ongoing negotiations for a UN Treaty on Business and Human Rights, that holds businesses accountable for abuses of human rights and the environmental standards in global value chain as well as plans to introduce an EU binding legislation on corporate due diligence, are more than timely.

Offensive business interests are put fist: Public policy space under pressure

The current trade and investment regime contributes to limiting the policy space available to tackle the downsides of globalisation and ensure prosperity. Investment agreements lay down far-reaching protection standards for foreign investors. Special rights of action for investors (ISDS) allow foreign investors to sue governments for large amounts of compensation if they deem their profits limited by national policies. This can potentially lead to an effect known as "regulatory chill", where governments refrain from taking urgently needed measures in the interest of the public or the environment because they fear claims against these measures to be brought before international arbitral tribunals by foreign investors. The risk of potential ISDS claims against measures that governments took in response to the coronavirus pandemic has also been widely discussed recently.

These risks for democratic policy-making are also reflected in the recent strong expansion of the trade policy agenda to include areas such as domestic regulation, public services and critical infrastructure. These offensive commercial interests have to date not been fully enforceable in areas such as health, data protection, transport, water provision or social services due to public protest and reluctant governments. However, they remain highly relevant because of the persistent push of trade officials and corporate lobbying groups for even more far-reaching liberalisation agreements.

Above all, the protection of the high collective value of public services is a matter of policy coherence – "within" and "beyond" Europe. The EU cannot credibly argue that strong public services are a key component of the European welfare model and globalisation based on solidarity as long as the EU simultaneously pushes for these services to be liberalised in other countries. The general need for a better protection of public interests holds especially true in the light of the Covid19-crisis: During the pandemic, a strong social state has once more proven to be pivotal in dealing with not only the health but also the economic crisis. Therefore, any unfettered liberalisation efforts would only deepen the legitimacy crisis of the current EU trade and investment policy.

Demands

Concluding from the previous discussions on the shortcomings of the current EU trade and investment policy, AK calls for its comprehensive realignment based on the principles of a just and fair global economy that places public welfare and prosperity above private profit interests.

A new trade and investment policy needs to build on the following principles:

- Prioritise social and environmental objectives over the profit interests of transnational corporations to achieve a just globalisation
- Require the ratification, implementation and application of international labour standards, in particular the ILO core labour standards (trade union freedom, prohibition of child and forced labour and non-discrimination) as well as the up-to-date conventions and recommendations of the ILO
- Require the ratification, implementation and application of multilateral environmental agreements and make the Paris Agreement an essential element in existing and future trade agreements
- Provide for the possibility to enforce international labour standards and multilateral environmental agreements through effective sanctions
- Ensure the legally binding status of and compliances with the EU's precautionary principle in all trade agreements
- Ensure democratic accountability and make sure that standards to protect social, labour, environmental, health and consumer interests are neither treated as trade barriers nor deregulated under regulatory cooperation

- Ensure comprehensive exclusion of public procurement and public services (e.g. education, health, waste management, etc.) from the full scope of trade and investment agreements
- Ensure high transparency and comprehensive impact assessments before and during negotiations
- Reject Investor-State Dispute Settlement (ISDS) and investment protection provisions in both trade and bilateral investment agreements

Additionally, to create the conditions for a prosperity-led strategic autonomy, implement the following:

- Strengthen and develop productive capacity within the EU in strategically important sectors, including the protection and extension of regional added value, especially with respect to public services
- Supplement the EU Emissions Trading Scheme (EU ETS) with an EU-wide minimum price and a Border Carbon Adjustment (BCA) to prevent undesired effects of trading on climate protection efforts, especially carbon leakage
- Strengthen the policy space for investment controls and the screening of Foreign Direct Investments in key sectors. Public authorities must be able to take effective action against the sell-out of strategic enterprises, critical infrastructure and technologies at any time
- Hold business accountable for abuses of human rights and environmental standards in global supply chains by introducing binding EU legislation; promote and constructively engage in the ongoing negotiations for a UN treaty on Business and Human rights.

Literature

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Authors

Henrike Schaum
henrike.schaum@akwien.at
Vincent Perle
vincent.perle@akeuropa.eu

About us

The Austrian Federal Chamber of Labour (AK) is by law representing the interests of about 3.8 million employees and consumers in Austria. The Austrian Federal Chamber of Labour is registered at the EU Transparency Register under the number 23869471911-54.

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