POLICY BRIEF

A NEW VISION FOR THE EU'S GLOBAL TRADE STRATEGY: ETHICAL WORLD TRADE AND ECONOMY FOR THE COMMON GOOD

Christian Felber, Brigitta Herrmann, Juergen Knirsch

November 2024

The need for a new trade paradigm

The era of “free trade,” still actively promoted by the World Trade Organization (WTO), seems to be coming to an end. In addition, two recent trends – neo-protectionism and economic geopolitics – are neither desirable alternatives to it, nor are they capable of responding to the ecological and social crises the planet is facing today. This presents a unique opportunity to ask what kind of international trade order could truly promote sustainable economic development, human and labour rights, gender justice, environmental protection, cultural diversity and peaceful international cooperation. **A Working Paper of the CBS International Business School** outlines a new paradigm of Ethical World Trade as part of a broader “Economy for the Common Good” framework.[1] In this policy briefing, we highlight the main policy reforms attached to this new vision, focusing on the transfer of a WTO rule-based global trade order into the UN system to align it with both the UN and European Union’s values and guiding principles

1. United Nations as the right place for a comprehensive rule-based trade order

The way trade is organised at the international level is via the WTO, an organisation which acts independently from the UN institutions and which is ruled by the principles of “free trade” – an economic paradigm underpinned by the theory of “comparative advantage” devised by classical economist David Ricardo.[2] According to this mainstream economic theory, countries trade with each other based on what they are comparatively better at producing.[3] “Free trade” is a paradigm in which trade (and investment) are goals in themselves rather than means to facilitate other ends such as peace, human rights, just distribution or climate protection. To ensure that trade serves the principles held by the “international community”, it needs to be embedded within the UN system so that it can align with international law and promote a coherent and just trade regime.

1. *Felber, C., Herrmann, B. and Knirsch, J. (2024): A New Paradigm for the EU’s Global Trade Strategy. Ethical World Trade and Economy for the Common Good. CBS Working Paper, November 2024. Online:* *https://www.cbs.de/en/about-us/research/publications/cbs-working-papers-white-papers*
2. *Ricardo, D (1911): On the Principles of Political Economy and Taxation. Batoche Books, 2001, p. 90.*
3. *“If A is much more superior at making automobiles and only slightly superior at making bread, then A should still invest resources in what it does best – producing automobiles – and export the product to B. B should still invest in what it does best – making bread – and export that product to A, even if it is not as efficient as A.” Source: WTO (2024): The Case for Open Trade. Online:* *https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact3_e.htm*

2. UNETZ with an ethical tariff system as the bedrock of "Ethical World Trade"

As part of the UN, we envision a new framework for trade embodied in the United Nations Ethical Trade Zone (UNETZ) to replace the current WTO rules and governance. Those countries that ratify and comply with UN conventions and agreements would trade freer with one another and could protect their higher commitments and standards both against non-ratifiers and non-compliers. They could place a higher tariff on imports from countries that start a war or do not ratify a particular human rights agreement; a moderate tariff for countries that have not ratified climate agreements; and a smaller tariff for each unratified core labour standard set by the International Labor Organization (ILO). For instance, imports from the Republic of Korea into a UNETZ member country could be charged with an ethical tariff of 3 percent since Korea has not ratified the Abolition of Forced Labour Convention (No. 105) – one of the ILO core labour standards.

Imports from the US would be charged with 10 percent as long as the US resists to ratify the Social Covenant of the UN which had 172 parties in 2024. This ethical tariff system creates an incentive for countries to ratify and comply with the existing UN agreements, providing a level playing field concerning human rights, labour norms, social security and environmental protection. UNETZ members that have signed the underlying treaty would submit themselves to a UNETZ Court in cases they do not fulfil their duties. It would be a "rule-based" system like the WTO, however, with different goals.[4] The UNETZ Court could sanction violators of their commitments with, for example, a quarter of the custom duty for non-members. After four years of continuous violation, the said member would lose its member status and be treated as a non-member. As an effect of these new rules, non-enforceable UN regulations in the areas of human rights, workers' rights and climate justice would turn into enforceable international law. UNETZ could begin its operations as soon as 30 members have ratified, and the initiative could be taken by the EU.

	Umbrella Agreement Establishing WTO		
	Goods	Services	Intellectual Property
Basic Principles	GATT	GATS	TRIPS
Dispute Settlement	WTO DSU (state to state)		
Transparency	Trade Policy Review		

Basic structure of WTO agreements, CBS Working Paper "A New Paradigm for the EU's Global Trade Strategy", p. 75

	Agreement Establishing UNETZ		
	Goods & Services	Public Services	Intellectual Property
Basic Principles	UNETZ	GAPS	DRIP
Dispute Settlement	UNETZ Court (state to state)		
Transparency	Policy Coherence Committee		

Basic structure of a future UNETZ, CBS Working Paper "A New Paradigm for the EU's Global Trade Strategy", p. 75

4. *Felber, C. (2019): Trading for Good. How Global Trade Can be Made to Serve People not Money. ZedBooks.*

3. Non-reciprocity between unequal trade partners

Historically, all industrial countries have used policy instruments to protect their “infant industries” that were at early stages of development, as well as non-competitive sectors. This has contributed to the development of their own industries and economies, according to the historian Paul Bairoch.[5] Today, wealthy countries in the WTO and in bilateral and regional trade agreements are calling for “free trade” with countries with a lower degree of industrial and technological development. However, poorer countries should be able to keep the right to protect their markets until they have met the basic needs of their people. They should be able to use the same “ladder” (a metaphor coined by 19th century economist Friedrich List)[6] to get over the wall of development that today’s high-income countries used, including industrial, technological, regional and structural policies. These instruments are at the heart of economic development.[7]

5. Bairoch, P. (1993): Economics & World History. Myths and Paradoxes. The University of Chicago Press.
6. List, F. (1909): The National System of Political Economy. Longmans, Green & Co.
7. Chang, H.-J. (2003): Kicking Away the Ladder. Development Strategy in Historical Perspective. Anthem Press.

4. Democratic freedom and regulatory sovereignty

Current WTO rules and provisions in investment protection agreements, like investor-state dispute settlement (ISDS*), inhibit or even prohibit a country's ability to use domestic policy regulations to pursue goals in the fields of employment, regional development, environmental protection or democratic oversight. For instance, both Germany's and the Netherland's decisions to phase out coal-based energy generation were challenged by lawsuits from fossil fuel companies due to these countries being part of the Energy Charter Treaty. WTO's core principles of the National Treatment (NT) and Most Favoured Nation (MFN), as well as the General Agreement on Trade in Services (GATS) and the strict protection of intellectual property rights (TRIPs) are, in fact, obstacles to sovereign politics. For instance, if a country wanted to protect its domestic or local industries, that would be a violation of its WTO commitments. If one government had decided to liberalise the supply of drinking water, under GATS, the following government would not be able to revise this decision. Ethical World Trade would, in contrast, widen the domestic policy space of member countries ensuring that every country is free to use the whole range of domestic policies to shape the economy according to its goals. Trade partners would have no means to take legal action against democratically legitimised regulations, and investors would not have the right to file an ISDS lawsuit on the basis of "indirect expropriation" or "unfair treatment" against states who try to protect consumers, workers or the environment.

ISDS give a foreign investor the right to file a lawsuit against a host country that fails – according to the investor - its duty to protect their investment on the base of bilateral, regional or multilateral Investment (Protection) Agreements.[8] There is a series of ad hoc-tribunals, such as the International Centre for Settlement of Investment Disputes (ICSID) of the World Bank Group that accept these lawsuits and take decisions that cannot be appealed. Until 2024, investors have claimed $856.74 billion from states through ISDS, of which a $113.87 billion have been awarded to investors.[9]

8. https://investmentpolicy.unctad.org/investment-dispute-settlement
9. https://www.globalisdstracker.org/

5. Ensuring balanced trade with an International Clearing Union

Within the free trade order, unbalanced trade – large deficits or surpluses – occurs all the time, leading to trade wars and geopolitical conflicts. Economist and philosopher John Maynard Keynes, after recognising this problem, provided a tool for an international trade equilibrium, which could be properly implemented within the UN today. He proposed the so-called “Clearing Union,” which would calculate all internationally traded goods and services in a new currency, called “Bancor” (today, we could call it “Globo” or “Terra”). This global reserve currency would not replace but complement national currencies – thus, also ending the hegemony of the US dollar. It would ensure that all participating countries have equal trade balances. Keynes proposed that countries with a large trade deficit or surplus would respectively appreciate or depreciate their currency or pay a fine proportional to the deviation. Keynes called this “an international stabilising mechanism.”[10] With the commitment to even trade balances, protective measures would not lead to a current account surplus and not harm others. Still, every country would be free to be as open or closed as it wishes, reflecting the meaning of true “free trade”. Hence, Keynes’ tool turns global trade competition into a cooperation of nations.

6. Localisation, economic resilience and cultural diversity

Long and complex supply chains are increasingly vulnerable in today’s context of overlapping ecological, health and security crises. From the perspective of economic resilience, regional circularity and democratic accountability, it is preferable that countries keep supply chains short and prioritise local economic structures. Division of labour and the use of comparative or absolute advantage – distributing the production of certain goods between different countries aiming for financial efficiency gains – is a possible option, but should not become a goal in itself. Indeed, as Keynes once wrote: ”I sympathize, therefore, with those who would minimize, rather than with those who would maximize, economic entanglement among nations [...] let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national.”[11] Contrary to the WTO’s “case for open trade” using the example of bread and cars[12], we argue that those who bake their bread and grow the grain themselves will be independent from global crises and supply chain risks.

10. Keynes, J. M. (1943): Proposal for an international Clearing Union. In J. K. Horsefield (ed.) (1969) The International Monetary Fund 1945–1965. Vol. 3, Documents (pp. 19–36). International Monetary Fund.
11. Keynes, J. M. (1933): National Self-Sufficiency. The Yale Review, Vol. 22, no. 4 (June 1933), p. 755-769.
12. WTO (2024): The Case for Open Trade. Online: https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact3_e.htm

7. Limiting the power of transnational corporations

Transnational corporations have become too large and too powerful nowadays. They present a danger to freedom and democracy through lobbying ("regulatory capture"[13], "post-democracy"[14]), media control, and instrumentalisation through finance of science. This has not always been so in history, and there is no law of nature suggesting that this needs to continue. The authors of the working paper propose that corporations can be re-embedded into society through:

- putting a limit to how much they can grow (e. g. maximum turnover or total assets of 50 billion USD);
- putting a limit to the percentage of the world market that corporations can take (e.g. up to 0.5);
- obligation to democratise internal structures when they become larger (e.g. through progressive distribution of property and voting rights);
- obligation to complete a Common Good Balance Sheet that evaluates their sustainability performance with a comparable score. This could be linked to positive or negative incentives.

The Common Good Balance Sheet has the capacity to invert the current race to the bottom on global markets into an upward spiral. The better its result, the freer companies can trade and invest; the poorer the result, the greater the difficulties they encounter. Consequently, ethical companies will crowd out less ethical ones, creating an ethical world market – an economy for the common good.

8. Extend the system of global governance

Instead of the WTO's GATS agreement on the liberalisation of services, a General Agreement on Public Services (GAPS) could be created. Willing countries could establish a collaboration platform and help out countries in need of technical, financial and labour resource assistance to establish excellent public services. The Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement could be succeeded by a DRIP agreement: Development-Friendly Rules for Intellectual Property. Instead of rigorously protecting intellectual property rights, these rules would promote know-how transfer from high- to low-income countries.

13. Korten, D. (1995): When Corporations Rule the World. Kumarian Press/Berrett-Koehler Publishers, pp. 56-57.
14. Crouch, C. (2004): Post-Democracy. Polity Press.

Beyond the United Nations Ethical trade Zone (UNETZ) system, a series of new elements for the global governance architecture is proposed: a global merger control, a Global Financial Authority, a Global Tax Authority and a World Court of Human Rights that can be invoked by every person whose rights have been violated by either a state or a company. In return, the system of global tribunals (e.g. ISDS courts) that are operating at the exclusive service of investors and at the expense of governments would cease to exist.

Conclusion

As described above, trade is indeed not an end in itself but a tool, a means, which can be utilised in either a destructive or constructive manner. Trade policy must abide by the fundamental values guiding society from human dignity to social justice to sustainable development. The proposed UNETZ would design the global trade order in alignment with these priorities and fit better to the objectives and values of the European Union than the long ineffective concept of free trade.

With the support of
the LIFE Programme of
the European Union

Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or CINEA. Neither the European Union nor CINEA can be held responsible for them