"US Protectionism – Carbon Emissions Provide Radical Answer for China"

China New Time Magazine (Beijing)
February 2009

Dr. E. Ted Prince
Founder and CEO
Perth Leadership Institute
www.perthleadership.org

The New US Protectionism

The US has become newly protectionist. Currently it is sitting on three trade agreements which were signed by the Bush Administration but which will not be ratified by the Obama Administration – with South Korea, Colombia and Panama.

The DOHA round of global trade liberalization negotiations are at a standstill, partly because the US (supported by Europe) does not wish to drop agricultural subsides which are a form of protection. The US Congress ended fast-track authority to sign trade agreements when the Democrats gained the majority in 2007. The prevailing political mood is against any trade liberalization, particularly with China.

If the Republicans gain a majority in Congress or the Presidency goes to a Republican next time, this situation might change, but also might not. Protection is a result not of governments but of interests. In addition to the US trade unions, which are powerfully promoting protectionism through the Democrats, there are many Republicans who also favor protectionism to protect US jobs and who are opposed to opening up more to China trade in particular.

From the US side, the future looks like more protection and more actions in the WTO against China based more on narrow technical rather than on broad strategic trade issues. As a result, China cannot expect to gain much, if anything, by trade negotiations with the US in the foreseeable future.

The US is a relatively closed economy with 25% of its GDP coming from trade. China is a relatively open economy with some 65% of its GDP coming from trade. So if the US restricts trade, it will not hurt itself much. If China restricts trade, it will hurt itself a lot. So US protectionism hurts China much more than the US. China needs to base its strategy on realism: in trade China needs the US much more than the US needs China.

The New Global Order

When countries are stronger they can afford to be open to trade. As they get weaker they become less open. This is the case currently with the US. For the past 50 years it has done

the heavy lifting in spurring global trade. The interests that make up US society have decided that they can no longer be so beneficent.

This view has now been institutionalized in the Obama Administration. Its view is that other countries now have to start to take some of the load off the US. Preferably this is China, Japan, India and Brazil. However the US view is that if these countries cannot or will not do this, the US will not step up to the plate. The US has basically decided that it cannot and will not do more. China may not like this but the basic fact is that countries in decline see no other choice.

The Asian Century

The view of the pundits is that we are entering the Asian century. Ideally the US sees that Asia will take up the task of spurring global trade. Its view is that since China and Japan are large and (at least in the case of China) expanding economies, they can and should do more.

Of course, this is unrealistic too. China is still too undeveloped to take on the role of global trade leadership, at least now. Japan is just too weak economically and also has no stomach to do this. Yet China is making some useful moves in spurring global trade. These include its trade promotion in Africa; its recent significant efforts at enforcing protection of intellectual property: promotion of Asian free trade agreements such as the ASEAN-China free trade area; and its support for the Shanghai Cooperation Organization (SCO), a mutual security pact for 6 Eurasian States which has is evolving into a free trade area.

But these moves by China will not satisfy the US or Europe since the developed countries want the Asian countries to take the lead now, not in 50 years time. So for now we have an impasse where the US wants China particularly to take up the global trade slack right now and China wants the US to liberalize trade with it immediately. Both are equally unrealistic.

The Grand Bargain

The trade initiatives that China is in a position to implement currently will not cause the US to change its trade policies or provide the trade benefits that China seeks. The best it can do is to make incremental moves within the limits of creeping US protectionism. Within the limitations of current US and Chinese trade policies the best it can expect are more US actions against it in the WTO and more actions by it against the US. This is not a happy scenario but it is the most realistic in the circumstances. The little that China can do will not lead to the US doing more in the trade area.

Unless, that is, China thinks outside the box. In order for China to break through the current impasse it must think strategically. It must think about what the US and the developed countries <u>really</u> want, that it can <u>really</u> deliver, under the right circumstances.

The rich countries of North America and Europe have all the material things they need so they are not going to negotiate to get more of them. However quality of life is important to them and pollution and carbon emissions are of vastly more importance to them than they are to China.

China is now emitting more carbon than any other country in gross terms (although not in per capita terms where it is still very low). Paradoxically the fact that it has now become the greatest carbon emitter is giving it powerful and ever increasing leverage as it creates and emits ever more free carbon.

In the area of trade China needs the US far more than the US needs China. But in the area of carbon emissions the US needs China far more than China needs the US. China has the option to use its carbon leverage to obtain trade benefits. The failure of the recent Copenhagen climate conference highlights the fact that a new approach is needed and China's leverage provides it with a possible solution to the trade issue.

Of course not everyone in the US or Europe cares about carbon emissions and many even oppose such action. But the people who count in the US and Europe want real action in this area. The Obama Administration and the European leaders badly want China's support and cooperation on carbon emissions. They have the power to confront their domestic trade liberalization opponents if the prize is great enough. Getting China's cooperation on carbon emissions in a binding regime might well be the right prize for them. Such an initiative from China would most certainly get their attention.

The stage is set for a Grand Bargain between the US, Europe and China. The Grand Bargain adds carbon as a central element to the trade equation and trades liberalization for carbon reductions. The US liberalizes trade; China puts real teeth into its carbon emission policies. The US and Europe are unlikely to suggest this approach. It is up to China to do it if it wants to them to make the trade moves it so desires. If it does so it will change the trade environment in a radical and positive way in which everyone can win.

Dr. E. Ted Prince, the Founder and CEO of the Perth Leadership Institute, located in Florida in the US has also been CEO of several other companies, both public and private. He is the author of 'The Three Financial Styles of Very Successful Leaders (McGraw-Hill, 2005) and numerous other publications in this area. He is a frequent speaker at industry conferences. He works with large corporations globally on leadership development programs and coaches senior executives and teams in the area of financial leadership. He holds positions of Visiting Professor at the University of Florida in the US in its Graduate Business School and also at the Shanghai University of Finance and Economics in China.