

INTERNATIONAL VIEW POLITICIANS WON'T STOP PROTECTIONISM, BUT BUSINESS MIGHT

CBI BEIJING »
BY GUY DRU DRURY

The first month of 2010 has already seen simmering trade spats between the EU, China and US spiral into major disputes over goods and services, from tyres to footwear.

As governments push national trade agendas in a febrile economic environment, the onus is on business to highlight issues it believes need to be addressed to ensure a fair commercial environment.

In China, this came to a head last month when Google voiced its concerns about increased state-sanctioned censorship. The search engine threatened to withdraw its four-year investment from China completely.

In late 2009, US, EU and Japanese business associations sent a series of joint communiqués to the Chinese authorities over the punitive new Indigenous Innovation Product Registration (IIPR) legislation.

The IIPR regulations seek to exclude foreign investors from Chinese government procurement contracts and sent a worrying message to the foreign business community.

Overseas investors have since lobbied to highlight the implications of such legislation. The CBI has supported open letters from chambers of commerce and other business associations.

The Chinese government has responded pragmatically: the new rules are being “reviewed” by the relevant Beijing ministries and individual foreign companies have been summoned for “clarification” meetings.

The news that China’s exports rose by 18 per cent in December 2009 to make it the world’s number-one exporter, also raised eyebrows. Such high output has arguably been due to its competitive currency, the Renminbi (RMB). It would help



to diffuse trade tensions if the RMB could appreciate.

As China’s top trade partner, worth £286bn in 2008, the EU has an important role to play. But it has so far failed to turn words into action. EU trade policy discussions with China would benefit from stronger Brussels leadership and more dialogue with business, as some EU states continue to try to safeguard national interests at all costs.

Copenhagen’s failure to reach a global climate change agreement highlighted the importance of business making its voice heard over protectionism. It is critical that business succeeds in 2010 where politicians have failed.

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NATIONAL INTERESTS THAT SURFACED IN THE CRISIS MUST BE ADDRESSED

CBI BRUSSELS »
BY SEAN MCGUIRE

The European Union was founded on protection – the basic need to defend its people’s interests from the political conflict and war that dominated Europe in the first half of the 20th century. Equally, the formation of the economic union came from the EU’s founding fathers’ belief that closer economic co-operation and interdependency would restore peace, security and stability.

Today, the single market is the cornerstone of the EU, allowing businesses to operate and consumers to buy across 27 member states. Well, that’s the theory – in practice, many barriers remain.

EU protectionism takes many forms, from failure to implement regulations that should open up markets, to “economic nationalism”. One of Neelie Kroes’ last acts as European

Commissioner for Competition last month was to launch an investigation into French government support for a leading French car maker, as the support was allegedly conditional on the company sourcing all its supplies from French firms. Such a condition would not only breach Treaty principles but years of EU jurisprudence.

This recession showed that leaders were happy to be European in good times but their immediate reaction was to protect national interests when economies hit the buffers. Is free trade acceptable only when it has no adverse effects at national level?

It is important, as we move out of the current crisis, that attention shifts from protecting jobs to protecting individuals, by equipping them

with skills to adapt to change. Equally, leaders’ focus must move from supporting ailing industries to investing in new ones, which will drive growth.

Over the coming months EU leaders will try to agree a successor to the much-maligned Lisbon Agenda, which had aimed to make Europe the world’s most competitive economy by 2010. A successor will only succeed if EU leaders really do believe in a free and open European economy that fosters innovation and investment – and if they have the courage to take hard decisions to secure its future competitiveness.

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PROTECTIONISM: WHAT A MISNOMER



CBI WASHINGTON »
BY RHIAN CHILCOTT

The Democrats have lost their 60-seat supermajority in the Senate. An already-cloudy outlook for major legislation on healthcare reform and emissions has got murkier. One piece of legislation has become dramatically more likely, however: a jobs bill. Democrats and Republicans alike believe that the upset in Massachusetts was in part due to anger over unemployment. They're likely to pass a second stimulus bill – and it is likely to include “Buy America” clauses.

Domestic sourcing requirements such as this are a uniquely pernicious form of protectionism. Tariff barriers are

now mostly illegal thanks to WTO rules. They are also very obvious. It's much harder to tell whether inward investor A lost a contract because their bid was inferior – or because competitor B was a domestic company.

But domestic sourcing is wildly popular politically, and therefore hard to lobby against. The irony is that it completely fails to do what it's supposed to: protect jobs. First, it artificially raises the cost of any project, meaning that fewer projects can be funded. Second, it often backfires in a world of complex global supply chains. Several big US companies have pointed out that Buy America requirements actually exclude them from government contracts: as international companies making

components around the world, they are unable to meet arbitrary sourcing requirements. Third, there is the danger of retaliation. It makes other countries more likely to close their procurement processes to US firms.

Some politicians understand this. At the most recent two G20 summits, governments pledged not to introduce new protectionist measures. But all too often, that's the executive branch speaking – and the legislature may not agree. Obama signed the pledge; Congress broke it – and is on the verge of doing so again.

In December 2009 the House of Representatives passed the Jobs for Main Street Act, which, in addition to doling out more money, seeks to make

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Buy America policies much harder to avoid. All requests for waivers must be made public; contracting departments will have to work harder to prove that no US source can be found; they will also be required to report on the long-term impact on the US manufacturing base. It is all designed to make procurement officials unwilling to award deals to non-US firms.

There's also a stand-alone Buy America bill floating round Congress, which would apply these strictures to nearly all government contracts – not just to stimulus money. And subtle Buy America clauses are appearing in appropriations bills – for example, the reauthorisation bill for the Federal Aviation Authority would require planes to be serviced in US facilities only.

It seems that 2010 will be the year of explaining – again – why protectionism is actually destructive.

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