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U.S. Trade Deals From the 90's Set Up China as a Pollution Haven

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Even while trade agreements brokered under Clinton helped China's economy to boom and brought Americans cheap goods, both nations have paid dearly.

By William J. Kelly

Part 2 of 3 of a special report from the co-author of a forthcoming book, The People's Republic of Chemicals. Read Part 1 [3].

China's plans to build remote industrial coal complexes [3] to power its economy are putting the country on a trajectory to wipe out global gains in tackling climate change, scientists fear. But other nations share responsibility for China's fossil fuel binge and the toxic air people breathe as a result—especially the United States.

China's pollution scourge has its roots in trade agreements set in motion by President Bill Clinton in the early 1990s that allowed U.S. companies to take advantage of cheap labor and lax environmental standards in the world's most populous nation—where coal energy reigns supreme. Many times the United States helped China finance dirty sources of energy.

As much as one-third of China's carbon load on the atmosphere can be traced to exports of cheap clothes, electronics, machinery and other goods consumed by Americans and Europeans, experts say. And while free trade to the West has made China's economy boom, Chinese people have paid dearly due to the resulting smog from factories and coal-fired power plants.

"We made a big mistake" by not including environmental safeguards in trade policies with China, said Mickey Kantor [5], Clinton's chief trade negotiator and later Secretary of Commerce. Now a practicing attorney in Los

Angeles with expertise in international relations, Kantor has been shuttling back and forth between the United States and China in one capacity or another for 20 years. He calls China's air "a disaster" and says that each time he visits "it's worse."


[4]

Mickey Kantor/Credit: Los Angeles Chamber of Commerce

China's air pollution kills more than a million people a year just from the involuntary act of breathing, according to the World Bank. Pollution has also fueled a spectacular increase in cancer. Most recently, the nation made headlines when doctors diagnosed an 8-year old girl with lung cancer and attributed it to air pollution.

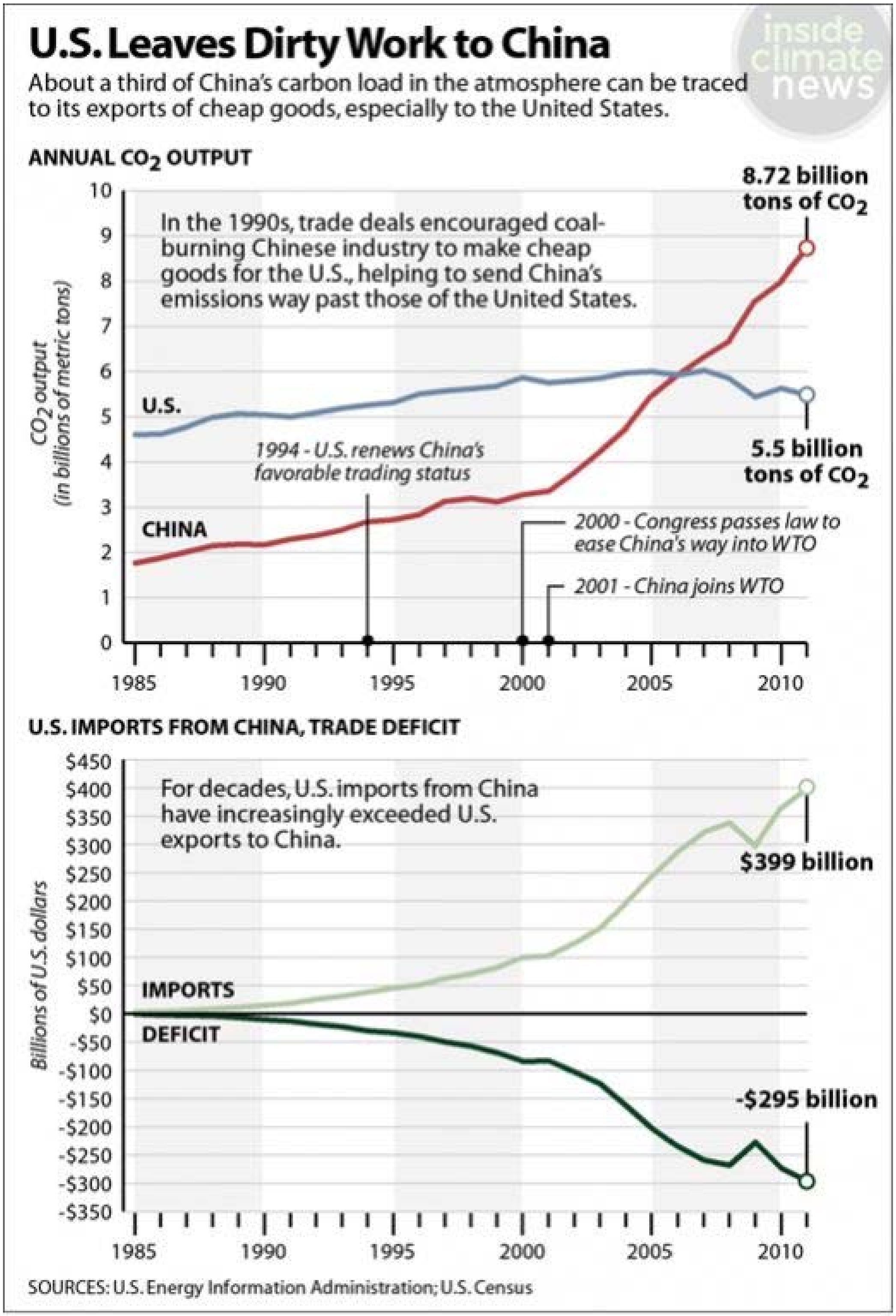
It is not just China's citizens who have paid a price from the trade agreements, according to Kantor and other international trade experts. U.S. communities and workers have paid with job losses and resulting downward pressure on wages as manufacturing moved abroad, even while Americans have enjoyed cheaper Chinese-made imports.

"The Chinese used to just assemble [components], now they're making them and we're paying the price," Kantor said. Today, U.S. engineers, product designers and other high-wage manufacturing workers compete with their counterparts in China—not just assembly line workers. Between 2001, the year China joined the World Trade Organization [6], and 2008, some 2.4 million manufacturing jobs in the U.S. were lost to China, according to the Economic Policy Institute, a liberal-leaning think tank.

China is "a force that's deindustrializing the U.S.," said David Coates [7], professor of international affairs at Wake Forest University and a leading expert on globalization. "A lack of regulation on its use of filthy energy sources must be seen as part of that" because it gives companies operating in China a cost advantage, he said.

Usha Haley [8], an economist and director of the Robbins Center for Global Business and Strategy at West Virginia University [9], agreed and added that Chinese subsidies have made matters worse at home.

"We've just lost jobs," Haley said. She cited incentives that China offers heavy industries to burn coal and other fossil fuels, which benefit China-based manufacturers at the expense of U.S. ones and encourage pollution. America's paper, glass, steel, food processing and auto parts industries have been the hardest hit by China's coal and related subsidies, said Haley, who has done studies for trade cases involving China.



PAUL HORN / InsideClimate News [10]

Free Trade Trumped Environmental Protection

Some envisioned back in the 1990s what's come to pass. Then, President Bill Clinton was busy greasing the skids for the unrestricted flow of money and goods around the world. Environmentalists, trade unions and some politicians warned China would become a pollution shelter, providing American manufacturers a way to avoid having to pay the costs of tight safety and environmental controls that are required in the United States, and giving them an unfair leg up on competitors that stayed stateside.

At first, in the years of world outrage over China's suppression of the 1989 Tiananmen Square protest, Clinton continued economic sanctions against China while seeking better recognition of human rights. But in 1993 Clinton abruptly changed his position. Through an executive order a year later, he effectively gave China "most-favored-nation trading" status—a special trade privilege that allows Chinese goods to be imported to the United States with the same low tariffs enjoyed by nearly all other U.S. trading partners. Without such low trade tariff benefits, Chinese products would be priced out of the U.S. market.

Through the latter half of the 1990s, debate ensued in Congress about whether to require China to meet workplace and environmental standards as conditions for full trade privileges with the United States. In 1997, then House Democratic Leader Richard Gephardt, a labor ally and critic of Clinton on China, had warned of the damage that could be done to the planet if such conditions weren't attached to trade deals.

"The benefits of U.S. action on the environment may be quickly nullified by China's and other developing nation's inaction," he said.

Such calls were ultimately rejected.

In 1999, the United States dropped its objections to China joining the World Trade Organization. And in 2000, Clinton's last year in office, Congress ratified permanent most-favored-nation trading status for China—with few strings attached.

In doing so, Congress sided with many in the Clinton Administration who maintained that conditions actually would be counterproductive for environmental action. Then Secretary of State Madeline Albright insisted that restricting trade would "cripple our efforts to enlist China's support" on the environment, and that China would make more progress under a voluntary approach. For one, she and others reasoned, limiting trade would keep China from developing the wealth it needed to finance environmental cleanup. Two, China would simply trade with other nations and shun U.S. companies, including those that were exporting the most-advanced pollution control technologies of the day.

On the losing end of the debate was Vice President Al Gore. He argued in his 1992 book "Earth in the Balance" for a "global agreement—a system of economic accountability" and an environmental "Marshall Plan" to combat climate change. Gore wanted conditions on trade with China, specifically controls on U.S. exports of polluting technologies, like coal-fired power plant equipment to other nations to help head off global warming.

Gore's vision never came to pass, even while he presided as vice president and lectured China on the need to control runaway emissions in 1997, when nations finalized the Kyoto Protocol to cut greenhouse gases.

Instead, under most-favored-nation status, U.S. trade promotion agencies helped finance exports of the very technology Gore wanted to control, coal power plants.

Together the U.S. Export-Import Bank and U.S. Overseas Private Investment Corporation committed some $4.2 billion for 19 coal projects around the world, including in China, according to the Environmental Defense Fund. During that period, The World Bank, led by two Americans—Lewis T. Preston, a J.P. Morgan executive, and corporate attorney James Wolfensohn—also helped finance another 29 coal power projects worldwide, some in China. Other similar government-sponsored financing institutions in Europe and Japan backed coal power plants, too. EDF found that combined the government-sponsored international financing organizations bankrolled some 20 coal power plants in China between 1994 and 2009.

Typical of the U.S.-backed projects was the Export-Import Bank's decision in 1996 to provide $792 million in combined loans to support the sale by the New Jersey-based Foster-Wheeler Energy Corp. of six 350 MW coal-fired boilers for the Yangcheng Power Plant in China's Shanxi Province. The plant emits 15 million tons of carbon dioxide a year and is one of 101 power plants in the coal-rich province west of Beijing, according to CARMA, a tracking database of coal plants financed by the Center for Global Development in Washington, D.C.

Export-Import Bank financing also helped General Electric sell a generator for the 2,520 MW Dezhou coal plant run by Shandong Huaneng Power Development Corporation. The plant emits up to 17 million tons a year of carbon dioxide, according to CARMA.

As Trade Increased, So Did Carbon

China's greenhouse gas emissions zoomed from about 2.2 billion tons of carbon dioxide in 1990 to 3.0 billion tons in 2000—threefold the amount the nation emitted when Mao Tse-Tung died in 1974, leaving his country's future to what would become an economic growth -oriented Communist Party.

Emissions mushroomed as the trade deficit between the United States and China—the amount by which America's imports of Chinese goods and services exceed exports—grew from $18 billion when Clinton took office to $84 billion when he left. Over those eight years, China's exports to the United States rose from $26 billion to $100 billion annually, according to U.S. Census Bureau statistics.

Some observers of China say it's clear now that the Clinton administration should have done more to include environmental safeguards in trade deals.

Kantor, who served under Clinton as U.S. trade representative from 1993 to 1996 and then as Secretary of Commerce from 1996-1997, was by all accounts dutiful and loyal back then. He put the best face on trade with China in 1994 testimony to Congress. He dwelled on how the United States under the most-favored-nation status arrangement with China would retain the right to prevent toxic products from entering its stores. But he also admitted most-favored-nation status had nothing to say about the environmental conditions under which the products were made in China.

Without equal standards, goods made in China could undercut U.S. producers and workers.

It amounted to what Ben Beachy, research director of Global Trade Watch for Public Citizen, a consumer organization founded by Ralph Nader, calls "environmental protection arbitrage." American companies that can manage to straddle the global economy have been making use of the trade agreements ever since. The deals allowed them to purchase products from the lowest-cost producers—those who get the cheapest energy and have the laxest standards—and sell them where they command the highest price or sell the greatest volume to fatten profits.

Not surprisingly, Beachy notes, as China's exports have climbed so have its emissions of greenhouse gases and air pollutants.

American consumers have played a role in China's emissions boom, as they've grown used to buying cheap Chinese goods.

About 2.9 billion tons a year of greenhouse gas emissions, or one-third of the nation's 8.7 billion tons a year, the latest tally, stem from exports of cheap goods that are used in the United States and Europe, according to a 2008 Worldwatch Institute report. That means emissions from Chinese exports alone total more than half of U.S. emissions, which stand at 5.5 billion tons annually. A more recent Stanford report in 2011 similarly estimated that 28 percent of China's carbon emissions were due to exports.

The Intergovernmental Panel on Climate Change, the leading global body for assessing climate science, highlighted the responsibility that rich nations share in China's carbon pollution problem in a draft report to be published in April. "A growing share of CO2 emissions from fossil fuel combustion in developing countries is released in the production of goods and services exported, notably from upper-middle-income countries to high-income countries," the draft study, first reported by the Guardian [11], said.

Emissions of other pollutants in China, like sulfate, have also been linked to the manufacture of goods that are exported [12]. And they're blowing all the way across the ocean to the United States, where they're beginning to frustrate U.S. efforts to brighten its own skies.

In the Western United States, for instance, up to a quarter of the sulfate in the air now blows in from China at times, according to Steven Davis, a co-author of the study and a University of California at Irvine earth sciences professor who's been following how China’s export economy is affecting the global atmosphere. And that's after U.S. Environmental Protection Agency regulations have required power plant operators to spend billions of dollars to control sulfur emissions.

Pollution increasingly rides the wind to the United States, explains Davis, because of the lax standards in China. "To make the same widget here emits a lot less pollution," he said. "Outsourcing has led to tremendous pollution in China."

Part 3, coming soon: *Can the mess be untangled and environmental and economic hope be restored?*

Read Part 1: *China's Plan to Clean Up Air in Cities Will Doom the Climate, Scientists Say* [3]

William J. Kelly is co-author with Chip Jacobs of the forthcoming book The People’s Republic of Chemicals (Rare Bird Books). This article and the book have been supported *by a grant from the Society of Environmental Journalists. Kelly also coauthored Smogtown: The Lung Burning History of Air Pollution in Los Angeles (Overlook Press) and is correspondent for California Current. He served as spokesperson and communications manager for the South Coast Air Quality Management District, the smog control agency for Los Angeles, from 1988 through 2001.*

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