



# IMPACT ANALYSIS

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## The Obama Administration Recognizes China's New Global Status

*Many members of the 111th Congress see things differently*

By John Manzella

Dear Friends:

Charles Darwin said, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." If true, the Obama administration is off to a good start with China (p1).

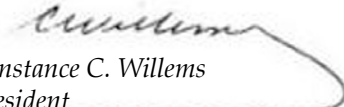
The stimulus bill's 'Buy American' provision provided the ingredients to start a trade war—until the Dorgan amendment was added. Although it has been rendered less effective, the provision still may become problematic (p2).

The college course "Introduction to Psychology" taught us that actions reinforced are more likely to occur again; actions punished are less likely to occur. So why do so many executives punish more and reinforce less? (p3-4).

Publicly challenging or embarrassing the Chinese usually backfires. In response, they often take a more hardened position leading to a breakdown of cooperation (p5).

I hope you find this issue informative and, as always, we welcome your comments.

Sincerely,

  
Constance C. Willems  
President  
World Trade Center New Orleans

Charles Darwin, author of *On the Origin of Species* published in 1859, once said, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." If true, the new administration is off to a good start with China. Why? The Middle Kingdom's global status has increased significantly and President Obama appears to have recognized it.

For example, in 2008 China became the world's third largest economy and America's second largest trading partner. And China can be a very important partner in our efforts to end the global economic crisis, denuclearize North Korea and prevent further development of its multi-stage long range missile, fight global terrorism, and seek and implement environmentally-friendly energy alternatives.

The importance of this partnership was reflected in Secretary of State Hillary Clinton's February 20th visit to China, where she delivered a message of cooperation. When asked by U.S. reporters about various contentious issues, she explained the need to reach consensus with the Chinese on broader issues, and agree to disagree on difficult ones.

Although problems remain, the Obama administration recognizes that China makes a better friend than enemy and is implementing a policy of constructive engagement.

Unfortunately, many Members of the 111th Congress have not recognized China's new status or how a favorable U.S.-China relationship can benefit the world, and are likely to push anti-China legislation. The outcome of this coming battle will define U.S.-China relations for some time. ■



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# Why 'Buy American' Provisions Cost Jobs

*The stimulus bill's version has been rendered less effective, but still problematic*

*By John Manzella*

The American Recovery and Reinvestment Act of 2009, known as H.R. 1 or the \$787 billion stimulus bill, was approved by Congress on February 13th and signed into law by President Obama on February 17th. Many aspects of the bill remain controversial. But the Buy American provision essentially provided the ingredients to start a trade war—until the Dorgan amendment was added. Although the provision has been rendered less effective, it still may become contentious once the dust settles.

## Uncertainty Creates Confusion

The Buy American provision states that all iron, steel and manufactured goods purchased by stimulus money must be produced in the United States. Some exceptions exist. For example, foreign iron, steel and manufactured goods may be bought if they cost 25 percent less than domestic prices. But the most important exception was an amendment put forth by Sen. Byron Dorgan (D-ND) that stipulates the Buy American provision "must be applied in a manner consistent with the United States' obligations under international agreements."

Many analysts believe the amendment has effectively prevented the United States from starting a trade war. Others are not so sure.

The Dorgan amendment likely means that Canada and Mexico can bid on U.S. stimulus-supported projects based on agreements sealed under the North American Free

Trade Agreement. And many other countries are probably protected by American obligations under the World Trade Organization (WTO). However, because the bill contains no definitions or rules of origin, and may be interpreted in various ways, the Canadian as well as European and Asian governments have expressed skepticism and, to some degree, fear that a protectionist agenda may be lurking in the 111th Congress.

Other problems remain. For example, China, Russia and other countries are not signatories to the WTO's agreement on government procurement. Consequently, they may not be covered by the Dorgan amendment

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and therefore may be prevented from supplying iron, steel or manufactured goods on projects funded by H.R. 1.

## If We Buy American, No One Else Will

According to a report published by the Peterson Institute for International Economics, the Senate version of the stimulus bill, which was adopted in the final bill, is expected to save or create 9,000 jobs. However, due to potential foreign retaliation, fewer exports could result, costing more jobs than gained.

The report estimates that if U.S. exports fulfilling foreign government procurement contracts are trimmed by just one percent, 6,500 jobs in the United States would be lost. If ten percent of these exports are cut,

65,000 U.S. jobs would be lost. And this does not include a decline in U.S. exports to non-government entities due to retaliation.

## Restrict Steel and Reduce Jobs

If history provides any answers, President George W. Bush's decision seven years ago to raise steel tariffs requires review. In December 2003, President Bush announced his decision to remove the steel tariffs he had imposed 21 months earlier. Nevertheless, the damage was done. U.S. steel users had incurred massive price increases as well as major supply disruptions, according to William Gaskin, President of the Precision Metaform-

ing Association. The higher prices caused many steel-consuming industries to shrink. In the end, more

jobs were lost than gained.

In rebuilding the San Francisco-Oakland Bay Bridge in the 1990s, Douglas Irwin from the Cato Institutes reminds us that the existing Buy American provision would have cost California taxpayers \$400 million more if it had not been rescinded at the last minute. All in all, Buy American provisions that restrict foreign suppliers of steel or other products often have unintended consequences and cost more jobs than they create. ■

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# Trusting Your Employees Is Good Business

*Establishing a participatory culture has tremendous benefits*

By Jim Kestenbaum

When business is good, positive feelings can be felt inside just about any organization. And why not? Sales are coming in and money is available to incentivize all performers, not just those at the top. However, during recessionary periods like this one, the tone inside most companies—perhaps even yours—is probably quite different.

## What Not To Do

As sales slow, people become nervous and edgy. And although everyone may boost efforts, pressure mounts. The result: finger pointing begins and silos between departments or teams rise. And worst of all, a company culture built upon mutual trust begins to fade.

At times like this, executive management—the folks I typically coach—often say it's time to get tough with the workforce. Statements like "Let them know they need to work smarter and harder... tell them they need to really start applying themselves or heads will roll!" are common. Is this positive reinforcement or punishment?

Decades ago, the college course *Introduction to Psychology* taught many of us that actions reinforced are more likely to occur again; actions punished are less likely to occur. With that in mind, it's obvious that the message above is one of punishment.

So why do so many executives punish more and reinforce less? Read on.



## Participatory vs. Autocratic Cultures

More businesses are beginning to appreciate the power of culture as a bona fide business driver. Culture—the sum total of how all people in an organization work together—is measurable and real. Some cultures

information, visit [www.denisonconsulting.com](http://www.denisonconsulting.com).)

In a participatory culture, people believe that in both good and bad times, there are fundamental ways everybody should treat each other, regardless of seniority or responsibility.

**In a participatory culture, people believe there are fundamental ways everybody should treat each other, regardless of seniority or responsibility. This type of culture is not a democracy, but everybody participates in making the company work well.**

are autocratic: management tells the workforce what to do. On a good day the workforce complies but doesn't often excel.

Other cultures are participatory: management and the workforce combine their resources and work in a collaborative and cooperative manner. Research has clearly demonstrated that a participatory culture not only feels better but produces superior business results. (For more

It also creates an "evergreen" environment where people fundamentally believe in and trust each other. The bottomline: people cover each others' backs.

## Strong Communication Is Required

Importantly, a participatory culture demands an environment of strong communication. Why? High degrees of trust require a culture of strong and open communication. But successfully sharing information is more complex than it often



seems. To achieve this culture, for example, management needs to obtain a consensus from employees on what the company is doing right and wrong, how the workforce is performing, how to give praise for a job well done, and how to correct for things that don't work so well. Overall, high communication cultures create a number of mutually reinforcing touchpoints similar to the way in which an

external marketing program operates. Several legendary companies, like Southwest Air-

lines, embody this style. In my locale, Palmer Food Services and Canandaigua National Bank are included in this category.

Unfortunately, a participatory management style is more difficult to achieve than an autocratic style.

### **Many Managers Are Familiar Only With Autocratic Cultures**

Autocrats typically bark orders and demand results that usually don't materialize—especially during tough times like these. The barking usually feels good, if only for a short time. This is one of the reasons managers do it. The other reason: frustration.

Unfortunately, most managers don't understand how to perform in

a participatory environment—the second reason why they are autocrats.

### **Investing in Your Workforce Even During Difficult Economic Times**

A recent *Wall Street Journal* article noted that even in bad times, good companies invest in leadership development. Investing in your leaders, and ultimately in all your employees, sends a very powerful message

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that they are important and worthy. Employees appreciate this and will return the favor in terms of higher performance and greater innovation. However, establishing a participatory culture requires an investment of time and money.

### **How To Build A Participatory Culture**

The first step to building a high trust, participatory culture is to truly believe in its value and understand that it's the wave of the future. Second, start talking about it with senior management. Let them know you are serious and want their undivided attention on this matter.

Also, suggest they read *The Five Dysfunctions of a Team* by Patrick

Lencioni. This is one of the hottest business books right now and for good reason. I have recommended this to many of my clients. Interestingly, all of them have a similar reaction: they feel the book was written about their organization.

Next, have senior management embark on a two-day retreat, preferably off site and professionally facilitated. During the retreat, explore how

your organization's culture does or does not inspire trust and the impact this has on the organization. At the

end of the retreat, ask your team to commit to working hard to trust each other. Once your senior management team has committed to establish a participatory culture, you'll need to cascade this information down into other levels of the organization.

This process will be a journey—and not one that follows a straight line. Expect to go off course from time to time, and feel the need to "get back to business." But in time you'll undoubtedly experience the importance of building a trusting, participatory business culture. Good luck! ■

*Dr. Jim Kestenbaum, a corporate psychologist, is founder of The Solutions Group ([www.tsgdrjim.com](http://www.tsgdrjim.com)).*

# Words Matter When Dealing With the Chinese

## *Understanding the Implications of Language*

By Shawn Mahoney

Over the past several decades, the U.S.-China relationship has evolved significantly. During this period, both countries have come to better understand each other's perspectives and view of the world. And both countries have come to realize that only by working closely together can we successfully address a number of pressing issues that affect us all.

However, from time to time, the U.S.-China relationship has become strained—and not due to issues of substance, but due to a lack of cultural awareness. For example, in the past both the United States and China have exchanged public comments that have had unintended consequences: the language used created the opposite response than was hoped or intended.

### Words Matter

In most circumstances, publicly challenging

or embarrassing Chinese leaders will backfire. In response, they likely will take a more hardened position both publicly and privately leading to a breakdown of cooperation.

Although scapegoating China may play well to American audiences, it strokes anti-American sentiments in China—and not just by its leadership. U.S. comments that appear to disrespect China or push it around only ramp up feelings of national pride by its citizenry. And negative comments usually are immediately disseminated via the media, blogs and websites throughout



China. This makes it more difficult for Chinese leaders to find common ground with the United States.

### Understanding China 101

From the Chinese leadership's perspective, being soft in the face of anti-Chinese rhetoric is tantamount to being weak. The reasons for this have

contacts, negotiations and opportunities.

### Disagree With Respect

U.S. policymakers need not avoid all negative comments when dealing with China. However, when disagreeing, it's important not to demonstrate a lack of respect for China's position in the world or to insinuate that China in a less-than-equal partner. As Americans and as the world's sole superpower, our words

are magnified over and over again. If we want to generate goodwill and establish a sincere partnership with China, it's far better to magnify our good intentions and desire to work together. In the end, the United States and China must cooperate to tackle pressing issues, like the global financial crisis, that will greatly affect both countries now and well into the 21st Century. ■

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**In most circumstances, publicly challenging or embarrassing the Chinese leadership will backfire. In response, the Chinese likely will take a more hardened position.**

deep historical roots.

For example, Chinese citizens and their textbooks often refer to the "hundred years of shame" when referring to foreign invasions and manipulation. Although various events occurred well into China's past, the sensitivity nevertheless remains.

As a result, statements or actions that harken to China's days of being the "sick man of Asia" or the "hundred years of shame" likely will be greeted with anger and may even lead to riots. But that's not all. Negative comments also destroy or damage day to day business exchanges,