

Risks of U.S.-China Decoupling in a Warming World

Even before the coronavirus pandemic, scholars, politicians, and pundits were debating the extent to which the United States should engage with, or “decouple” from, China. It is a choice with vast implications, because China has grown so economically mighty that a U.S. strategy of decoupling would, over time, transform a one-world economy into two separate spheres of influence. That debate is largely framed in terms of the security benefits vs. the economic costs of decoupling. The pandemic has only reinforced the perception that global supply chains are vulnerable to disruption or abuse, providing ammunition for those advocating for decoupling.

The best strategy for the United States remains unclear so long as the debate ignores climate change. Greenhouse gas (GHG) emissions are already remaking our world, by increasing the size and severity of hurricanes, droughts, fires, and floods. In the 20th century, strategists could afford to see environmental politics as a secondary issue. In the 21st, the scale of the projected death and destruction wrought by climate change is too big to ignore. The amount of climate-related destruction will be large, but how large depends on policy choices. While climate change is not a security threat in a traditional sense, to be met with military force, it is nonetheless a first-rate strategic threat when considering how to allocate a country’s resources to maximize its security and prosperity.

The United States should work with Europe to create an international “climate club” of major economies, within which all member countries have minimum levels of pro-climate policy, and which uses trade adjustment measures such as tariffs against all countries outside of the club. Those tariffs solve a problem that undermined the 1997 Kyoto Protocol and other climate efforts, namely the lack of a punishment on those that refused to participate. Such a club is vital to a prosperous United States. Yet, that strategy depends critically on the size of the economies inside the club. Only a large climate club makes sufficient decarbonization politically sustainable over time – and that means including China.

Consequently, U.S.- and EU leaders should signal their willingness to take costly climate action, if China will do the same. The timing is good: a window of opportunity is opening up in the next decade, as the cost of renewables is expected to fall to equal the cost

of coal-powered electricity generation in China. China has already taken some steps to price carbon and reduce emissions, but both China and the United States lag behind Europe, and all of them must do much more decarbonization to meet the UN's sustainability goals. If China refuses, the United States and Europe must be able and willing to impose economic costs on China for that choice. They can do so by excluding China from access to their economies – *but only if they have not already done so, preemptively, by dividing the world into two economic spheres*. In turn, that imperative tips the balance in the debate about decoupling from China.

In addition to the need to include China in a climate club, two additional climate risks to decoupling bolster the case, on balance, for a one-economy world. The first of these risks is the loss of access to China's low-cost manufacturing of key environmental products, including batteries, wind turbines, and solar cells. Second, to the extent that a decoupling strategy is successful in relocating manufacturing from China to the United States, it would make the job of reducing emissions produced in the United States even harder, compared to the baseline of no decoupling. Overall, the United States can and should protect a small number of economic sectors that are critical for national security and health emergencies. For most economic activity, however, it should find ways to live with a fiercely competitive global interdependence that includes China.

This conclusion follows from my premise that the security benefits of decoupling do not massively outweigh the economic costs. While there are some scary worst-case security scenarios associated with continued strategic engagement with China, they are far less likely than the worst-case scenarios for climate change. Moreover, it is unclear that decoupling actually reduces the worst-case military risks. Instead, decoupling appears to help with more quotidian security risks, concentrated primarily in a small handful of products and sectors, including information technology, certain pharmaceutical supply chains, and the defense sector. The security threats associated with most of the economy, however, including major U.S. export sectors like entertainment, finance, agriculture, and higher education, appear relatively modest and manageable. Thus, the strictly economic benefits of engaging with China, with some exceptions, are at least close to the magnitude of the security costs, if not larger. If that is true, the need for effective climate policy easily tips the balance in favor of engagement.

The Need for Grand Strategy

Any argument for a grand strategy rests upon the premise that a strategy is worth formulating. Various commentators have recently attacked that premise.¹ They question the value of grand strategy for the United States in an age when political polarization is high, and Democratic and Republican leaders seem to want such different things. They point out three successive presidents – George W. Bush, Barack Obama, and Donald Trump – have each come to office promising to undo large parts of the foreign policy of their predecessor.² A fourth in that series is quite possible. What is the point, these commentators ask, of a grand strategy when it is unlikely to last beyond a single presidency?

There is a big difference, however, between the practical difficulties of sustaining a grand strategy and the desirability of having one. True, polarization has made it harder for the United States' to maintain consistency in its foreign policy – though Congressional bipartisanship on foreign policy continues even now to a higher degree than is often recognized.³ Still, the increased *difficulty* of pursuing a grand strategy does not mean that policymakers would be better off abandoning a strategy altogether. Far from it.

A clearly articulated grand strategy is useful for three reasons.⁴ First, it gives direction to different parts of the government. Even within a single administration, the U.S. government is sometimes at odds with itself, with different departments and agencies doing different things. A clear strategy shrinks this problem by communicating priorities from the White House to the bureaucracy. Second, it is untrue that a strategy is only useful if it lasts for decades. A lot can be accomplished in four years, and even more in eight, with the latter being the typical pattern of presidential turnover. Consider how much the Trump administration has changed in its first term: a lot (setting aside the question of whether those changes are positive). Third, and perhaps just as important, a grand strategy pursued by one president helps clarify what is at stake in future presidential elections. Voters must

¹ Drezner et al. 2020

² Schultz 2017

³ Chaudoin et al. 2010, 2017; Busby et al. 2013; Smetlz et al. 2017

⁴ See also Zenko and Lissner 2017; Lissner and Rapp-Hooper 2018

be given information that helps them evaluate presidential candidates' approaches in light of their predecessors' actions.

For all these reasons, any candidate for U.S. president for the foreseeable future ought to be able to offer a clear vision of his or her strategy with regard to China, and with regard to climate change. The two are inextricably connected.

The Appeal of a Two-Economy World

One can imagine a totally open, insecure global economy or a highly decoupled world of two completely distinct spheres of influence. Realistic alternatives are in the middle. One possibility is a one-world open economy with a small number of carve-outs for security reasons, such as on electronic equipment that can be exploited in cyber-warfare. Former Treasury Secretary Henry Paulson described that option as building a "high fence around a small yard to protect our national security."⁵

The alternative is a two-economy world where the United States and China each set rules and run supply chains within their own spheres of influence. Trade between those spheres would likely continue in commodities and non-critical finished goods, like toasters, but today's integrated supply chains in parts and unfinished goods would have to change significantly. Economic relationships like those between Apple and its foreign suppliers could continue within a sphere of influence, but could not easily straddle them. Complex supply chains involve manufacturing in one country using the intellectual property created in another country, which requires the kind of deep integration between economic and legal systems that would be hard to sustain across the divide in a two-economy world, almost by definition.

A recent report the Center for a New American Security, at the request of the U.S. Congress, recommends this type of two-economy world approach. It concludes that the "United States and China are locked in strategic competition over the future ... At stake are competing visions." It argues that direct competition with China should be "an organizing

⁵ Paulson 2019. Available at: https://www.paulsoninstitute.org/press_release/remarks-by-henry-m-paulson-jr-on-the-delusions-of-decoupling/

principle of U.S. foreign policy, not just one among many other pressing priorities in the world.”⁶

A two-economy world is appealing for four reasons. First, it would limit exposure of each side to the other’s espionage and intellectual theft. No longer, for example, would the U.S. or any country within its sphere have to worry about Huawei – but then, no longer would they benefit from Huawei’s products and prices. Second, a two-economy world would likely slow the relative gains of China. Integration has been good for China: it has grown far more rapidly than North America or Europe has since it was allowed to join the WTO, and some of that growth is attributable to its access to Western markets. Decoupling would be costly for the West, but it would probably be even more so for China and its economic partners. Moreover, decoupling might slow the trend towards income inequality in the United States, as companies sought to re-shore some jobs that had previously been offshored to Asia. The latter effect, however, would be at least partially offset by automation.⁷

Third, a two-economy world would limit global risk to Chinese embargoes on key natural resources, pharmaceuticals, and other materials. In the past, China has sought to use its near-monopoly on the production of certain rare earths as a way of manipulating markets to its advantage. During the recent spread of the coronavirus, an editorial in Xinhua News suggested that China might withhold pharmaceutical exports to the United States, which would “plunge US into the mighty sea of coronavirus.”⁸ Understandably, policymakers from both parties expressed concerns about the potential vulnerabilities in U.S. supply chains.

Fourth, pursuing a two-world economy might be very good domestic politics. Political leaders in both the United States and China could stand to gain domestically by positioning the other side as a rival or even enemy. Social psychologists suggest that “othering” can contribute to social cohesion, though it has potentially negative effects as well, such as increasing the potential for conflict between groups. In addition, when a

⁶ Ratner et al. 2019. “Rising to the China Challenge,” CNAS.

⁷ Bauerle and Colgan 2017

⁸ <https://www.zerohedge.com/geopolitical/china-hints-blackmail-over-pharmaceutical-exports-would-plunge-us-mighty-sea>

leader faces economic problems at home, a two-world economy generates opportunities for scapegoating. This fourth factor is not a policy advantage of decoupling – on the contrary – but policy analysts must recognize the political benefits for an elected leader who is considering this path.

Against this array of arguments in favor of a two-economy world stand two standard counter-arguments. First, it would be enormously costly.⁹ Modern just-in-time manufacturing and integrated finance creates efficiencies that would be destroyed by decoupling. Disrupted supply-chains are only part of the cost. There would also be the lost sales in China by U.S. firms, which make an estimated \$500 billion in sales in China.¹⁰ The Chinese government holds over \$1 trillion in U.S. Treasuries. American universities benefit from the hundreds of thousands of Chinese students who come to the United States each year.¹¹ Experts have urged these and other costs to be considered in foreign policy analysis.¹²

An increasing number of analysts and politicians, however, view the security benefits of decoupling as outweighing even these large economic costs. No quantitative analysis of how to total up these costs and benefits is possible, of course – security risks are, to some degree, incommensurate with economic benefits and costs. Grand strategy is not an accounting exercise. Still, the fact that the United States has, until recently, pursued a strategy of deep engagement with China suggests that even if the balance of overall net benefits has now shifted or was perceived incorrectly before, it is still relatively close. There has been nothing equivalent to a Pearl Harbor attack to warrant a radical revision of perceptions. Certainly, changes might be warranted in certain key sectors or supply chains. Overall, however, only the most hawkish views of China's intentions could justify dismissing the economic costs of decoupling. My premise is that the security benefits to openness are, at most, only somewhat larger than the economic costs.

⁹ Farrell and Newman 2020

¹⁰ Gewirtz 2020

¹¹ Rosenberg et al. 2020

¹² Schake 2019

Second, as Joseph Nye and others point out, the loss of global interdependence creates security risks of its own.¹³ Most scholars of international relations believe that economic interdependence reduces the probability of conflict between states, even if it does not eliminate it completely. Yet the size of that pacifying effect has always been hard to measure against the obvious risks generated by interdependence.

Thus, the appeal of a two-economy world remains strong. So long as the choice is framed as one between a one-economy world that maximizes prosperity vs. a two-economy world that maximizes security and resilience, the latter will tempt some political leaders.

The environmental need for a one-economy world

Policymakers must incorporate climate change into their strategy. It is a first-rate strategic threat to the United States. In November 2018, a United States government report projected a 10 percent decline in U.S. GDP as a result of climate change.¹⁴ In 2020, the World Economic Forum ranked climate change as the biggest risk to economy and society. The Union of Concerned Scientists reports that more than 300,000 coastal homes in the United States, with a collective current value of \$117.5 billion, are at risk of chronic flooding within the lifespan of a 25-year mortgage issued in 2020. By the end of the century, more than \$1 trillion of real estate properties are at similar risk.¹⁵ The death toll and human health consequences are similarly large. An economist at the University of Chicago testified to the U.S. Congress that more people will die from climate-driven temperature changes in 2100 than the number who die today from all infectious diseases combined.¹⁶

Climate projections made just a decade ago are now outdated, as scientists update their models and foresee risks that are even worse than their earlier assessments. The best

¹³ Nye 2020

¹⁴ Irwin, Neil (2019-01-17). "Climate Change's Giant Impact on the Economy: 4 Key Issues". *The New York Times*.

¹⁵ Union of Concerned Scientists 2018. Available at: <https://www.ucsusa.org/resources/underwater>

¹⁶ Greenstone, Michael, quoted in McMahon 2019. Available at: <https://www.forbes.com/sites/jeffmcmahon/2019/12/27/climate-related-deaths-in-2100-will-surpass-current-mortality-from-all-infectious-diseases-economist-testifies/#36a412fc4222>

scientific projections available suggest that sizeable swaths of the planet, including parts of the United States, will face a deadly combination of heat and humidity, as determined by a measurement called the wet-bulb temperature. Heat waves with this combination can kill a healthy human, sitting in the shade, within six hours because the body is unable to cool itself. Wet-bulb temperatures in the Persian Gulf, North Africa, and parts of South Asia, “will exceed the threshold for human survival,” according to MIT scientists.¹⁷ To a lesser but still deadly extent, the southwestern United States will also experience such heat waves. Air conditioning can mitigate the threat but requires massive infrastructure investment. Heat waves will impose costs, one way or another. Scientists expect some parts of the world will become effectively uninhabitable by the end of the century.¹⁸

In addition to its direct effects on the United States, climate change is a threat multiplier, according to multiple studies by the Department of Defense. It increases the likelihood and severity of a variety of social and economic ills, including armed violence in poor states.¹⁹ Those conflicts tend to spill over borders, creating additional security threats. In addition, climate change is likely to generate millions of migrants and refugees. The World Bank expects 140 million climate migrants by 2050.²⁰

Recognizing the global challenge, some countries are adopting pro-climate policies faster and more aggressively than others. Many of them, but not all, are in Europe. As of 2020, a total of 46 countries had implemented or scheduled carbon-pricing schemes.²¹ States are adopting these pro-climate policies despite the risk of free-riding by other countries. The political imperative to act now on climate change, and to demonstrate leadership to other countries, has proven important to many voters and policymakers.

Yet, to date, carbon-pricing schemes are politically feasible in most democracies only because they are modest. Deeper decarbonization requires higher carbon prices: not just the currently common \$15 or \$20 per carbon ton, but \$50 to \$100 or more. Prices at that level put some industries, like glass, cement, or steel manufacturing, at a significant

¹⁷ Kang and Eltahir 2018

¹⁸ Kang and Eltahir 2018

¹⁹ Mach et al 2019

²⁰ Rigaud et al. 2018

²¹ Mountford 2019

competitive disadvantage compared to firms operating in other countries that do not have carbon pricing.²²

Most or all countries pursuing deep decarbonization in their own economies, on the basis of domestic politics, will want to offset their competitive disadvantage by creating border adjustment taxes (BATs) or other trade measures. The simplest BATs are taxes applied to imported goods, at the border. In the United States, BATs might be called “fees” because right-leaning politicians abhor taxes, but the choice of name makes no difference.

By design, BATs level the competitive playing field for trade, by raising the price of imported products made in states that have weak climate policies. The amount of the BAT is roughly equal to the cost difference created by climate policies between the importing and the exporting states. (More broadly, governments might use export subsidies and regulations, in addition to import tariffs, as border adjustments to try to level the international playing field. I focus on import tariffs only to simplify the discussion.)

The European Union’s (EU) is planning, under President Ursula von der Leyen, for a European carbon border adjustment tax (BAT). It is an indicator of things to come. The EU already has a carbon tax applied to European producers, which raises the costs of manufacturing in certain sectors. Understandably, such manufacturers want a level competitive playing field when facing imports from countries that do not have carbon taxes or other pro-climate policies. That gives rise to the BAT plan, which would raise the cost of imports from non-green jurisdictions.

On its own, however, the EU is not going to be able to solve the climate challenge. It accounts for just 10 percent of global emissions, ranking third behind China (more than 25 percent) and the United States (15 percent). It needs the other major economies to reduce their GHG emissions, too. The failure of the Kyoto Protocol and the weakness of the 2015 Paris Agreement highlight the difficulty in arranging global policy solutions.²³ Yet many scholars and policymakers now see an international climate club as a far more promising approach to reducing emissions, because it offers what the United Nations’ agreements have not offered thus far: real punishments for non-participants.²⁴

²² Keohane and Victor 2011

²³ Harrison and Sundstrom 2007; Jewell et al. 2019

²⁴ Nordhaus 2015; Hale forthcoming; Unger et al. 2020

An international climate club operates in the following way. First, all member countries have minimum levels of domestic pro-climate policy, such as carbon pricing (taxes or cap-and-trade) or equivalent regulatory measures. Second, to offset the competitive disadvantages associated with those policies, all members of the club apply BATs on products coming from countries outside of the club. All concrete proposals for a club follow these two basic principles, though they vary in their details. For instance, ideally a climate club would not only punish outsiders but also offer shared benefits to the insiders. Some scholars suggest that shared research findings, common standards, and other tools could generate those club benefits; others see a simpler model with no explicit benefits as more feasible.²⁵ Other details, like whether to make tariffs product-specific or to create exceptions for green firms operating in non-green countries, also vary across proposals. We should not lose the forest for the trees, however. The essential features of the climate club are that (1) it encourages pro-climate policies inside the club, and (2) it creates an economic disincentive for states not to participate.

The benefits of a climate club with BATs come with one big disadvantage: it creates an incentive for non-members of the club to retaliate with tariffs of their own, applied against the goods made inside the club. Those retaliatory tariffs reduce world trade and market efficiency. Moreover, they weaken the political support for pro-climate policies inside the club. By hurting the economic competitiveness of exporters from inside the climate club, they create or strengthen an internal constituency (i.e., the exporters) with incentives to oppose the policies that allow the climate club to function. If that constituency is politically powerful, they could weaken the club's carbon pricing, or even obstruct it altogether, as a way eliminating the tariffs.

Partly as a consequence, the effectiveness of the climate club depends crucially on its economic size. A small club, which has few national members with sufficient domestic support for pro-climate policies, will struggle to function. Because the club is small, outsiders would lose only a small portion of the world market for their exports if they refuse to comply with the required pro-climate policies. A large initial climate club, however, makes the value of access to the climate club's internal market higher. Being shut

²⁵ Falkner 2016; Keohane et al. 2017; Green 2017

out of that market becomes more costly for outsiders, and so even relatively modest BATs could incentivize them to adopt pro-climate policies.

Expanding a climate club beyond the EU, to include the United States, would be a leap forward in climate governance. The day could be coming when the U.S. Congress and White House will want to adopt carbon pricing. While that day is unlikely under a Trump administration, there are some encouraging signs that Republicans are beginning to take the issue seriously. For instance, industry lobby groups like the Climate Leadership Council advocate a carbon tax in conjunction with BATs.²⁶ The right-leaning, libertarian Niskanen Center has made pro-climate policy one of its top priorities. Many Democrats are already keen. If and when serious decarbonization policies are on the table, some form of BAT is very likely to be part of the bargain, as it was in the 2009 Waxman-Markey bill.

Yet a climate club that includes the United States and the EU without China faces two big problems. First, it would create the environmental and political problems of allowing China to free-ride on the US-EU efforts. Environmentally, it would be insufficient, because China is the world's largest GHG emitter. Politically, it would allow American and European critics of a climate club to cry foul. Recall that the U.S. Senate voted 95-0 in favor of the 1997 Byrd-Hagel resolution, which opposed any climate treaty unless it "also mandates new specific scheduled commitments to limit or reduce greenhouse gas emissions for Developing Country Parties." That resolution passed even before China became the world's largest emitter. In other words, participation by China is a potentially necessary condition for U.S. participation.

The second big problem is that leaving China outside of a climate club means that it would have strong incentives to retaliate against the club's BATs. Imagine, for instance, what would happen if China threatened to target major US exports like soybeans, aircraft, and motor vehicles for tariffs, making clear that they were a response to climate-related BATs. That threat would put enormous pressure on many U.S. politicians to oppose BATs, particularly if China could signal its intentions before the BATs were initially put in place. If carbon pricing and the associated BATs were able to pass into legislation at all, in this scenario, they would do so at a low level reflecting political compromise. Given the last

²⁶ Schwartz 2017; <https://www.clcouncil.org/media/2017/03/The-Conservative-Case-for-Carbon-Dividends.pdf>

thirty years' track record, it seems very likely that such policies would be far too weak to adequately address the climate challenge.

Consequently, the United States and Europe should work together to put China to a crucial decision on a climate club: China can either accept its share of the global task to mitigate climate change, or face the economic and political disadvantages of acting as the chief obstacle to a climate solution. The political risks for the latter are significant for China.²⁷ Assuming a credible US-EU proposal for a climate club exists, China risks shouldering the political blame for climate change among both global and domestic audiences. Environmental concerns rank high among China's own people.²⁸ Even with China's propaganda machine and ferocious censorship, it would be hard to avoid a global narrative painting China as the bad guy on climate change. That would undermine its legitimacy domestically and abroad. Such concerns have motivated China to change its policies in the past, with respect to humanitarian interventions.²⁹

If, instead, American and European policymakers make an attractive path forward for China to join a climate club, its leaders would have to take that option seriously. Yet that path can only exist in a relatively open world, not a bifurcated two-economy world. In the latter, heightened political tensions and hostile rhetoric seems almost inevitable. U.S.-China relations would not need to be as hostile as the U.S.-Soviet relations were during the Cold War to nevertheless fatally weaken the political advantages of a global climate club.

Is a relatively open, one-economy world truly a precondition to a global climate club? After all, even in the height of the Cold War, the Soviet Union and the United States found ways to cooperate on a few issues, like nuclear arms control. Yet, those examples of Cold War cooperation give faint hope of a climate club in a world divided into two hostile economic camps. International cooperation on climate change has already proven monumentally difficult, even among countries with relative goodwill. It is pervasively intrusive on domestic policies in a way that nuclear cooperation never was. Increasing the political and economic divide between the world's two strongest economies will not make climate governance easier.

²⁷ Kastner et al. 2020

²⁸ Christensen 2015; Wallace and Weiss, forthcoming

²⁹ Fung 2019

Even more importantly, a conditional climate club proposal that threatens to exclude China from significant US-EU economic access cannot work if China is already excluded. The key strength of a climate club is that it makes economic access to major markets conditional on environmental behavior. Short of military coercion, economic access is often the strongest form of leverage that countries have in international relations. A two-world economy takes that leverage off the table preemptively. Indeed, a two-world economy is an anti-strategic move. Strategic moves are those that depend on another player's actions; a two-world economy severs ties with China regardless of its climate policy. The United States and Europe simply cannot afford an anti-strategic approach on climate change.

Fortunately, the timing is good for a climate club proposal. In the next decade, the cost of wind- and solar-powered electricity generation is expected to fall to equal or below the cost of coal power in China.³⁰ Renewables are already attractive to Chinese leaders because they help avoid the problem of local air pollution, especially fine particulate matter. Thus, reducing local pollution and GHG emissions are co-benefits of renewables. To date, the low cost of coal has outweighed those environmental advantages, but the picture is now changing. At some point in the distant future, renewables might become so economically attractive that no policy measures are needed to encourage them, but by then, the world will have done massive damage to the climate. Between now and that time, a window of opportunity is opening up, in which relatively modest policy measures can greatly speed up the adoption of the energy transition in China. Policymakers should seize it.

Additional climate risks to decoupling

The strategic need to include China in a climate club, and to have the right leverage to incentivize China to join, is sufficient reason on its own to favor, on balance, a one-economy world. Two additional climate risks to decoupling bolster the case.

The first of these risks is the loss of access to China's low-cost manufacturing of key environmental products, including batteries, wind turbines, and solar cells. In 2018, China

³⁰ Hang 2019

produced two-thirds of the world's solar panels, roughly 70 percent of the world's lithium-ion batteries, and a third of the world's wind turbines.³¹ Decoupling would likely raise the cost, and perhaps even cut off access, to these crucial technologies for decarbonization efforts. Decoupling advocates might see this fact as precisely the point: it would create incentives to stimulate production in the United States and its close allies. Yet that kind of production capability requires years of investment to create. By restricting the global availability of low-cost Chinese environmental products, a decoupling strategy almost certainly puts the Paris Agreement's emission reduction targets for 2030 out of reach.

Second, to the extent that a decoupling strategy is successful in relocating manufacturing from China to the United States, it would very likely cause U.S. national emissions to rise, compared to the baseline of no decoupling. Currently, international trade complicates each country's responsibility for emissions. For instance, one study finds that approximately 21 percent of China's carbon emissions are due to goods produced for the U.S. market.³² If decoupling causes some of those products to be made in the United States rather than China, U.S. emissions will rise (and Chinese emissions will decline), all else equal. Environmentally, this does not matter, since only the total global emissions cause climate change. From a national strategic perspective however, decoupling will make the job of reducing the emissions produced on U.S. soil even more difficult.

A Path Forward

The appeal of a two-economy world is real, but it must be resisted. The environmental reasons for a one-world economy must be added to its two other principal advantages. The first is economic: the efficiency of global supply chains has been crucial in supporting the last three decades of growth. Most economists view it as unlikely that the same rate of growth could continue in their absence. The second is peace. The many business, educational, and cultural linkages that global integration facilitates bring increased understanding and broader horizons. Those linkages shape preferences, open channels of communication, and ease tensions.

³¹ Helveston and Nahm 2019: 794

³² Lin et al. 2014, quoted in Zhou 2017

Instead of decoupling, the United States should follow a three-phase strategy to build a global climate club. In the first phase, the U.S. government should work with Europe (including the United Kingdom and other non-EU members) to hammer out the broad parameters of a climate club, making its terms conditional on the Chinese response. Chinese participation at this stage would be welcome but not required. This should include rules specifying the minimum levels of carbon pricing or equivalent regulatory action, and the rules for applying BATs outside of the club. With those rules in hand, ideally the U.S. Congress should pass a law authorizing a carbon tax (or fee) that specifies a conditional structure: the carbon price per ton and the accompanying BAT if China refuses to join the club; and another, higher, carbon price and BAT if China does agree to put equivalent environmental measures in place in its own economy. There should be a significant difference between the two structures; perhaps \$25-35 per ton in the first scenario and \$50-70 per ton in the second.

The second phase begins if China has not already joined the club. In this phase, American and European diplomats should work with China to build the case for China's cooperation. For China, the benefits of taking climate action already include (i) satisfying the segment of China's population that favors climate action;³³ (ii) reducing present and future costs and damages due to climate change;³⁴ and (iii) improving its international image.³⁵ To these benefits, the climate club proposal would add (iv) avoiding the tariffs and reputational harm associated with being a climate outsider; (v) increasing the market for its exports of renewable technologies; (vi) being able to legitimately impose tariffs on imports to China from climate-laggard states, possibly including competitors like India; and (vii) potentially other benefits associated with the climate club, including shared research gains and input on common commercial standards.

The choice must be China's. Outsiders should not try to directly lobby or influence China's domestic political process, which would only backfire. Public diplomacy can, however, make sure that the basic terms of the US-EU proposal are widely understood by Chinese citizens. Chinese industries affected by the proposed US-EU BATs should also

³³ Christensen 2019

³⁴ Kang and Eltahir 2018

³⁵ Fung 2019

understand what is at stake. At that point, the outcome would depend on political mobilization within China, and on the ability of Chinese leaders to make a wise choice.

The third phase would begin if and when China decides to cooperate with the US and EU to form a climate club. In that phase, diplomats from all three countries could try to convince the rest of the world to join the club. Other major emitters like India, Brazil, and Russia would be clear targets for such diplomacy. Access to the huge markets inside the climate club would become conditional on environmental action. Countries that prove willing could then join the climate club through “climate accession deals” in a fashion similar to the process by which countries join the World Trade Organization.³⁶

This strategy’s success is far from certain. There are many potential obstacles, but it provides a plausible path to generating more meaningful climate governance at the global level. Given the scale of the climate challenge, and the recurring failures of past attempts to address it, that is no small thing. Its value ought to tip the scales when U.S. leaders are considering whether to decouple from China.

Some political leaders in the United States and China are already giving into the temptation to scapegoat the other for domestic political gain. That tendency renders the relationship more hostile than it needs to be. Yet wise political leaders should see that the gains from cooperation – careful, partial, guarded cooperation – far outweigh the costs. A one-world economy, with limited exceptions for national security reasons, lays the foundation for a sustainable environment. It is more than just good policy; it could be good politics, too. Such a strategy could make politicians into statesmen.

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³⁶ Victor 2011

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