

# U.S., China Clash On 'Cooperative' R&D Projects

Joe McDonald, AP Business Writer

BEIJING (AP) — In late 2009, President Barack Obama and his Chinese counterpart Hu Jintao announced an ambitious array of joint clean energy research projects touted as a mark of a maturing relationship and an alliance to fight climate change.

A year after Obama's visit to China, the envisioned partnership has largely evaporated. The U.S. has filed a complaint at the World Trade Organization against China's policies favoring its producers of wind and solar equipment. Cooperation in climate change talks has been rare.

On the eve of Hu's U.S. visit, the conflict is emblematic of a range of areas, from climate to technology to reducing strains in the the global economy, where Beijing sees its interests as very different from Washington even as they pledge cooperation.

"On the main issues, there is open hypocrisy on both sides," said Derek Scissors, an economist at the Heritage Foundation, a Washington think tank.

The stakes are significant. The United States and China are the two biggest economies and greenhouse gas emitters and are linked by \$250 billion a year in trade. Whether they can cooperate is likely to be key to restoring the world economy to health and creating an effective program to forestall climate change.

The two governments have worked over the past decade to forge ties with regular Cabinet-level meetings and U.S. officials advise Beijing in fields from health to environmental enforcement. But across many economic issues they are moving toward conflict.

Beijing, citing its need to reduce poverty and avoid financial shocks, has rejected binding greenhouse gas limits and U.S. pressure to ease currency controls that critics say keep its yuan weak and swell China's trade surplus.

On the U.S. side, a listless economy and high unemployment make it politically harder for Washington to argue for cooperation and add to pressure on Obama to press China over trade complaints.

In climate, the two governments trade accusations that they are blocking progress.

Similar conflict marks efforts to reinvigorate the world economy and ease global economic imbalances by reducing America's huge trade and budget deficits and narrowing China's multibillion-dollar trade surplus.

Beijing committed to boost its domestic consumption to cut reliance on exports and fuel demand for imports. But it has restrained the rise of its yuan against the dollar,

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Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

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which would increase the spending power of Chinese families. Analysts expect a Chinese trade surplus this year of about \$200 billion — the same as 2010.

Washington promised to narrow its trade and budget deficits but spending outpaced revenue by \$1.3 trillion last year. The U.S. Federal Reserve's latest effort to stimulate the economy with \$600 billion in bond purchases triggered alarm in Beijing, which warned it could fuel global inflation and erode the value of the dollar and China's mountain of U.S. Treasury debt and other assets.

The current strains are at odds with Obama's first year in office in 2009, when he talked up the importance of a partnership with Beijing on energy, the economy and other issues.

"Obama's in a tough place because in the first two years of his administration, he made repeated cooperative gestures to China and got nothing in return," said Jim McGregor, a senior counselor for consulting firm APCO Worldwide and a former chairman of the American Chamber of Commerce in China.

The American leader was received coolly on his November 2009 visit to Beijing. The next month in Copenhagen, U.S. envoys were dismayed when China led opposition to block agreement on a framework to limit growth of greenhouse gas output.

China pledged to reduce its use of fossil fuels per unit of economic output but rejected a monitoring system to verify its emissions. Washington was criticized by environmentalists for refusing to commit to bigger cuts of its own, which U.S. manufacturers say would put them at a disadvantage against fast-rising Chinese competitors.

The setback in Copenhagen hardened the Obama team's views on cooperation while China felt less pressure to compromise due to its quick rebound from the global crisis and rapid economic growth.

During the 2009 visit, the two sides announced energy ventures including a U.S.-China Clean Energy Research Center to work on electric cars, more efficient buildings and cleaner coal technology. They promised to promote cooperation in private sector research.

Those plans are moving ahead but officials are still reviewing possible projects and research work has yet to start.

Meanwhile, Beijing faced growing complaints that it was squeezing European and U.S. makers of wind turbines out of its fast-growing market while subsidizing exports of solar and wind gear in violation of its free-trade commitments.

Such subsidies are "particularly harmful," U.S. Trade Representative Ron Kirk said when the WTO case was filed in December. If the WTO ultimately rules in Washington's favor, the Obama administration would be authorized to impose penalty tariffs on Chinese products equal to the lost sales that U.S. energy companies are experiencing.

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Beijing reacted angrily, criticizing the WTO case as a politically motivated attack on efforts to develop clean energy technology. An official of the Chinese Cabinet's National Energy Administration accused Washington of providing its own improper subsidies to U.S. companies.

"At every high-level meeting, they promise more cooperation on clean energy. But they are really moving toward more conflict on energy," Scissors said. "In the U.S., you hear constant political complaints about how China is stealing clean energy jobs."

Boosting sales of computer, telecoms and clean power technology is a core element of Obama's pledge to double U.S. exports and create 2 million jobs within five years. But that conflicts with Beijing's "indigenous innovation" strategy, which aims to build up China's technology suppliers by favoring them in government procurement.

Beijing has promised to let foreign companies apply to have China-based operations treated as domestic suppliers. But even if they are, production in China would create far fewer U.S. jobs than exporting the same goods from American factories.

In a speech last week, U.S. Treasury Secretary Timothy Geithner suggested Beijing might be given greater access to U.S. technology if it does more to address American complaints about its currency controls and intellectual property theft.

Again, that clashes with China's strategy of pressing companies to hand over know-how as a condition of buying wind power, high-speed rail and other goods. Some complain Chinese partners use that to create competing products and in some cases might be selling shared technology abroad in violation of licensing agreements.

"There are more and more policies of protectionism that aren't in the headlines but are in the details of the local and national regulatory systems," said McGregor. "It appears there is a debate behind closed doors on how much further to take 'reform and opening' versus building state capitalism and 'national champion' state-owned enterprises."

**Source URL (retrieved on 12/26/2014 - 1:56am):**

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