CENTER FOR THE NATIONAL INTEREST

America, China, and Energy: Cooperation or Competition?

During a July 24 panel discussion, two top experts on China's politics and economy argued for continuing U.S.-China economic cooperation, including in energy. Nevertheless, they noted that tensions in the U.S.-China economic relationship are growing—and that American businesses are increasingly frustrated with some Chinese practices, such as intellectual property theft. Myron Brilliant, Senior Vice President for International Affairs at the U.S. Chamber of Commerce and Douglas Paal, Vice President for Studies at the Carnegie Endowment for International Peace and a former top National Security Council official for Asian affairs, also urged greater cooperation in the energy sector. The meeting was the second in a series on energy and energy innovation organized in cooperation with the Clean Air Task Force. Center Executive Director Paul Saunders moderated the discussion.

China's Economy

Douglas Paal argued that China's leadership will face hard decisions this fall after the 18th Chinese Communist Party Congress selects the new team that will run the country for the next five years. This could imperil the current patronage system and even "pose a mortal threat to the CCP's current mode of operation", he said, as China's government tries to move the economy away from export-led growth and toward the consumption-based expansion necessary to address structural imbalances and sustain its development over the long term.

Brilliant and Paal disagreed somewhat over China's near term economic prospects. While Brilliant saw China's economy as slowing, he suggested that the country could maintain 5.0% to 6.5% growth. Paal stated that China may be much sicker than it looks—and that the United States is much healthier than most believe. He pointed particularly to bad debt held by Chinese banks that could amount to as much as 85% of China's gross domestic product (GDP). The debt is a product of massive investment in inefficient state-owned enterprises, partly driven by politics and patronage, he said.

However serious its economic problems may be, Brilliant and Paal agreed that China's leaders are not yet of one mind on the country's direction. Brilliant noted that unlike U.S. presidents—who tend to be most powerful at the beginning of their terms, when their electoral mandates are strongest—Chinese leaders usually have greater influence at the end of their years in office. Accordingly, Paal and Brilliant agreed that the country's new leadership is unlikely to take decisive measures soon and that it could take three years before the team to be selected this fall will be able to launch major new economic initiatives.

China's Energy Choices

Focusing more narrowly on the energy sector, Brilliant said that there has been a "sea change" in Chinese energy policy; Chinese leaders are increasingly concerned by their nation's dwindling resources. The Chinese government's 12th Five-Year Plan sets out investments in clean vehicle technology, new building codes, and waste reduction. Brilliant also described China as "slowly moving up the value-added chain" by promoting indigenous innovation with policies impacting intellectual property, government procurement, and anti-trust enforcement.

Nevertheless, China's policy responses have been "all over the map," Brilliant said, seeking simultaneously to boost energy imports, develop new technologies, promote renewable energy, and improve efficiency. One participant suggested that China faces a looming choice between expanding its coal consumption and deploying new clean energy technologies and asserted that Beijing appears to have chosen the latter course due to its substantial investment in solar power technology. Brilliant disputed this, saying that it would be a mistake to give China too much credit for what are more likely experimental investments that pale in comparison with spending in other areas. China's energy policy is unlikely to move in a straight line, he concluded, but will instead be "bumpy."

One participant in the discussion argued that China will depend more and more on oil and natural gas imports from the Middle East and Asia. While Beijing appears quite interested in developing unconventional natural gas resources, Brilliant stated that U.S. companies are reluctant to share key technologies such as hydraulic fracturing (fracking) to develop China's shale gas resources due to concerns about China's observance of intellectual property rights. Although the Chinese government has made great strides recently in enforcement through more robust policing and raids, Brilliant explained that U.S. companies are often subject to forced technology transfers and have also been targets of frequent and complex cyber-attacks to steal intellectual property. As a result, Brilliant said, many American firms have a "one step in and one step out" approach to China. Companies continue to invest there, but try to limit their exposure to China's risks. This limits opportunities for both American and Chinese companies. Moreover, a participant added, China's natural gas imports from Australia cost six times more than current U.S. domestic natural gas prices.

Investment

Paal and Brilliant agreed that the United States and China would both benefit from greater Chinese investment in America; currently, American foreign direct investment (FDI) in China is over $70 billion per year, while Chinese investments in the United States amount to only about $7 billion. Brilliant commended the Obama administration's push to increase Asian investment in the United States and insisted that many Chinese complaints about ease of access to the American market are overblown. While he admitted that getting projects together can require complex coordination with federal, state, and local officials—and that some investments, like CNOOC's failed 2005 bid buy Unocal, can become politicized, he pointed to U.S. firms' patient efforts to learn how China's market works as a key to their success. Paal agreed that Chinese firms would be more successful if they exerted greater effort to understand U.S. laws and practices.