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The U.S.-China Clean Tech Opportunity

Today, the U.S. and China have an opportunity to collaborate on a project of enormous bilateral and global significance: to lay the foundation for a vibrant and sustainable clean technology future. While the agreement that the U.S. and China signed at the recent Strategic and Economic Dialogue raises some questions, that tentative start should not undermine the larger work of harnessing our collective strengths to foster the rapid, market-driven commercialization and adoption of the most promising clean technologies in and around the world.

Such a cooperative effort is both laudable and achievable—and long overdue. Today, both China and the U.S. are heavily dependent on foreign oil, and together account for almost half of the world's carbon emissions. Moreover, each of our countries is showing real progress on a number of the most promising technology fronts, including wind power, carbon capture and sequestration, and "smart grid" electricity transmission. While there are real issues in managing economic competition and interdependence in this promising growth industry, it's also clear that we can do more together than we can alone, and that our combined efforts would powerfully accelerate the clean tech future.

To achieve this future in a meaningful way, a few practical steps need to be taken by both governments. As an initial matter, our governments should stipulate that their role is not to pick winners or protect domestic champions, but to create the framework and conditions for an open, functioning and competitive clean-technology market. For this to happen, our governments should focus on accomplishing three concrete tasks.

First, each government should seek to eliminate arbitrary regulatory barriers to U.S.-China commercial high technology trade and work to advance common global technology standards. In the past, China has sharply criticized U.S. export controls, despite the fact that those controls apply to less than 1% of all high technology trade with China. However, to the extent that even those modest controls are not supported by legitimate U.S. security or foreign policy interests, they should be reexamined and eliminated, if appropriate. Despite widespread perceptions in China to the contrary, the good news here is that no such export controls apply to the export of U.S. commercial clean technology to China.

Second, China should continue to strengthen its efforts to develop a world-class intellectual property rights system. Many leading non-Chinese companies want to capitalize on the tremendous opportunities in the China clean technology sector. However, many such companies remain hesitant to share the know-how to develop the most promising technologies because of their concern over China's commitment to enforce intellectual property rights and norms. In fact, this self-exclusion by companies from the China market is one of the most significant constraints to U.S.-China high technology trade, and is a far more consequential "barrier" than export controls. Although China has demonstrated an increased commitment to protecting the intellectual property of foreign companies operating within its borders in the past few years (e.g., through a marked increase in IP-related criminal prosecutions), greater IP enforcement efforts are still needed, particularly if the aim is to encourage U.S. companies to bring advanced clean technologies into China. China can also strengthen the perception of its commitment to IPR protection -- and thereby incentivize international firms to bring their sophisticated products into the Chinese market -- by abandoning its call for the compulsory licensing of clean technologies. After all, maintaining a vigorous intellectual property regime is not only important for foreign companies; it will become increasingly important to Chinese investors and entrepreneurs as they themselves develop cutting-edge technology products and services.

Third, both the U.S. and China should avoid the siren's call of protectionism. It is appropriate for countries, including the U.S. and China, to regulate inbound foreign direct investment for national security reasons. However, the sole standard for this review should be national security—and nothing else. In every case, the process should be objectively reasonable, equitable to similarly situated parties, and as streamlined and transparent as such a national security review can reasonably allow.

Moreover, both governments should avoid favoring domestic technologies or players over foreign companies. For example, China has implemented an effective 40 percent tariff on clean-coal technologies -- thereby keeping promising clean-energy technologies out of China. And while WTO rules ban countries from using local content requirements to force companies to set up factories in a country instead of exporting to it, China has never signed the WTO Agreement on Government Procurement despite promises to do so. As a result, many companies in China's power industry, most of which are majority-owned by the Chinese government, remain largely exempt from the relevant international trade rules in this area. This has enabled China to impose local content requirements in the clean tech sector – for example, by requiring that wind turbines have 70% local content (a regulation which led many European turbine manufacturers to build factories in China) and that at least 80% of the equipment be made in China for the first Chinese solar power plant.

Other rules are also making it hard for foreign manufacturers and investors to compete in China. While China's renewable energy standards require that renewable energy account for a certain minimum percentage of the generating capacity of each large power company, the rules do not dictate how much electricity must actually be generated from that capacity. Therefore, power companies have an incentive to buy the cheapest wind turbines available to increase their renewable energy capacity - even if the turbines break down frequently and do not produce that much electricity. Because turbines from Chinese-owned companies tend to have slightly lower purchase prices than foreign-brand turbines, local manufacturers are favored over foreign firms. Financial regulations for wind farms also make it harder for foreign-owned wind farms than domestic-owned ones to borrow money or to sell carbon credits.

Both China and the U.S. should work for an open, transparent and level-playing field so that companies of any origin can develop clean tech products and services based on market competition and product performance. Subsidizing domestic companies and denying multinational companies competitive access to local markets and government procurement contracts runs counter to the clean-tech trade cooperation both countries should commit to.

By taking concrete steps now, our governments can do two important things simultaneously: lay the foundation for a clean tech future that the world wants and needs, and begin to write the next constructive chapter in one of the most important bilateral relationships in the world.

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