

No trade war as China, United States emphasize long-term ties

by Mary Burdman

Chinese and U.S. officials focused on long-term energy cooperation agreements during the six-day visit of U.S. Energy Secretary Hazel O'Leary to China on Feb. 19-25, just before an agreement was reached on Feb. 27 to drop the threatened U.S. trade sanctions against China. At issue in the threatened trade war was American "intellectual" property rights to Hollywood movies, rock CDs, and recycled television programs. President Clinton warmly welcomed the agreement, although he cited grounds that the deal would protect U.S. jobs hardly reflects the enormous economic needs of both China and the United States. In fact, China could benefit greatly from the deal if it means protection from these products of the rock-drug-sex counterculture, as could the United States.

The dispute gave not only Trade Representative Mickey Kantor, but also House Speaker Newt "Contract with America" Gingrich (R-Ga.), the opportunity to expose their understanding of "intellect." Gingrich told his constituents in early February, "The Chinese have had a habit of stealing our intellectual property rights. Intellectual property rights are very important. We make as much money out of 'Jurassic Park' as we make out of a lot of manufactured goods."

However, Secretary O'Leary, who led a delegation of about 100 U.S. officials and energy company executives, presented a very different perspective. In a statement in Hongkong on Feb. 18 en route between India and China, she made a point of noting the differences between the "portfolio" of her department, and that of Kantor, who has been fostering trade friction with China since the beginning of the year. The tensions grew when China refused to give in to U.S. demands for big trade concessions in order to join the World Trade Organization. Beijing has refused to yield to the U.S. demand that China join the WTO as a "developed" nation, on the obvious grounds that China, despite its great size, is a poor, developing nation.

O'Leary stated, "My department has an excellent and cordial relationship with China. We are focusing on their needs long-term. I know there are difficulties over intellectual property rights, but all countries go through a rough patch. . . . I believe it would be very foolish to halt a long-planned mission involving energy because this rough patch has occurred." While Kantor had briefed her at length on the trade

disputes, she said, "We are very clear about the difference of our two portfolios."

When she met with Ye Qing, vice minister of the State Planning Commission, on Feb. 21, O'Leary said at the start of their meeting: "The President of the United States sent this very large business delegation to China with great hopes not only that we will succeed in fomenting a very strong relationship and an energy partnership. Indeed, he is looking forward to our energy engagement deepening our understanding as two nations, and providing the foundation for many other opportunities to cooperate."

The Chinese view has consistently been of the same order. On Feb. 11, anticipating O'Leary's visit, the official *China Daily* announced, "China To Ink Energy Deals with U.S.A. . . . Despite the Widely Feared Trade War." The article reported that Beijing expected to sign \$4-8 billion in energy deals during the "high-profile American business trip." O'Leary's delegation was hosted by the State Planning Commission and the Ministries of Power and the Coal Industry. On Feb. 23, she was received by Prime Minister Li Peng, who said that China has taken an "active, earnest, and forward-looking attitude toward Sino-U.S. relations." Li Peng said that both countries share extensive common interests and that there are plenty of areas for developing mutually beneficial cooperation.

China's power-generation needs

China wants to increase power generation by as much as one-third, up to a 300 million kilowatt capacity, by the year 2000, which will require over \$80 billion in investment. This investment will continue to focus on coal production, on which China is dependent for 75% of its energy supplies. Vice Minister Ye Qing told O'Leary that China hopes to expand cooperation with the United States in the field of energy resources. He said that China's energy industry is expected to grow over the next five years, with a planned 8% increase of electricity output, by 15 million kilowatts a year. "We attach great importance to increasing energy efficiency and applying new technology to pollution control," he said. China is especially interested in the development of clean coal technology, and is interested in close cooperation in this field with foreign nations such as the United States, an

important matter given that China expects to mine 1.4 billion tons of coal by 2000.

O'Leary also met with Vice Premier Zou Jiahua, who said that China welcomes more U.S. investment and technology transfer. Zou said that China's energy development will have to include oil, coal, natural gas, electric, and nuclear power.

An idea of how great China's energy needs are, was given by Power Industry Minister Shi Dazhen in an interview with the official *Beijing Review* on Nov. 21. Shi said that China has enormous energy needs: Per capita annual power consumption ranks 80th in the world; per capita generating capacity is one-thirty-third of the world average. For China to reach U.S. levels of installed generating capacity, it would have to increase its capacity to over 1.3 billion kilowatts, up from one-tenth of that figure now. "The country as a whole has faced a power shortage for 24 years. Nationwide, some one-tenth of the population has no access to electricity," he said. In this situation, the government is giving priority to power development. Along with thermal and hydropower development, China will make a "great effort to gradually form a nuclear power generating capacity," and has plans to build a number of nuclear plants in coal-short eastern provinces.

National interests protected

Despite its great needs, China does not intend to surrender vital national interests to gain foreign investment. Shi stated that Chinese policy is to absorb foreign funding, but the principle is that the "grid system should be placed under unified state management, and the sales of fixed assets are prohibited." The foreign share in strategic power plants is limited to 30%, and while investors should earn profits, the policy is to ensure that no increased costs for energy accrue to enterprises or consumers.

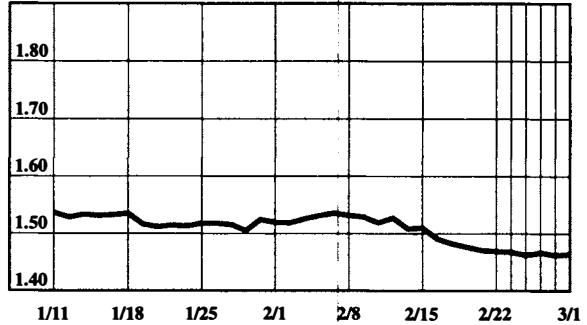
U.S. press reports indicated that a number of U.S. businessmen are not happy that Prime Minister Li Peng has put a cap of 12% on foreign investors' rate of return on power projects, a rate several percent lower than what other developing nations allow.

Despite the agreement, nasty voices continue to come from some circles in Washington. China "trade specialist" Gregg Mastell, of the Economic Strategy Institute, told the Feb. 28 *New York Times* that "everyone realized that piracy is not just a problem, it is a fundamentally ingrained part of China's economic plan. And that is why so many people are skeptical that this agreement, or any agreement, can stomp this out." Mastell had earlier demanded in a policy document that the United States use China's determination to join the WTO to force it to open its "still largely centrally planned economy, the most protectionist of any major country." If China joins the WTO "while persisting with mercantilist practices, it will make a mockery of the WTO's free-trade principles and threaten the entire world trading system," he wrote.

Currency Rates

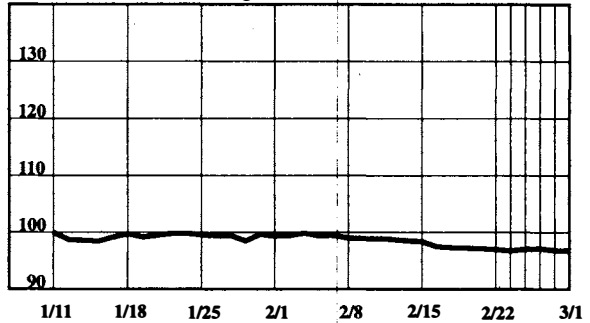
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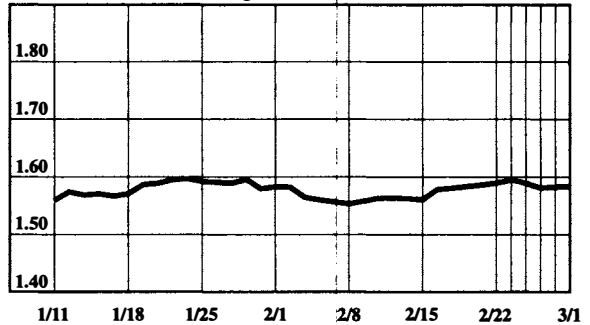
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