

U.S., China to Open Negotiations on Investment Treaty

By Mark Drajem and Rob Delaney
Bloomberg
June 18, 2008

The U.S. and China agreed to start negotiations for an investment treaty that would guarantee access for the nations' companies to buy assets in the other country, two American government officials said.

The treaty will take at least a year to complete, the officials told reporters on a conference call today, on condition of anonymity. The accord would give companies from both countries the right to seek international arbitration if they face unfair discrimination, they said.

China would be the largest country with which the U.S. signed an investment treaty, and the talks come as American firms seek greater access to the world's fastest-growing major economy. Today's deal is the product of the fourth round of the semiannual Strategic Economic Dialogue discussions started by Treasury Secretary Henry Paulson in 2006.

An investment treaty "would give us some traction" to open China's markets to U.S. companies, said John Frisbie, president of the U.S.-China Business Council.

Paulson and Chinese Vice Premier Wang Qishan are leading the SED talks in Annapolis, Maryland, which conclude today. U.S. business groups representing companies such as Citigroup Inc. have pushed China to allow a greater role for overseas enterprises.

The two governments must now negotiate which industries would be covered or exempted from the accord, the officials said. Nothing in the final agreement would limit the ability of the U.S. to review investments for national security risk, they said.

Next Administration

It would be up to the next U.S. administration to decide if they will continue with the negotiations, because President George W. Bush's term ends Jan. 20.

An investment pact may benefit China as its government pushes state-owned companies including oil explorer Cnooc Ltd. and smelter Aluminum Corp. of China Ltd. to buy oilfields and mines abroad to feed industrial demand in the world's fourth-largest economy.

Cnooc, China's biggest offshore oil producer, in 2005 failed in a \$18.5 billion bid to buy El Segundo, California-based Unocal Corp. because of opposition by U.S. lawmakers.

“We hope we can get equitable and just treatment and hope the policies of the host countries are open, so that our investors can have a sense of security,” Chinese Trade Minister Chen Deming told reporters in Annapolis today.

Fighting Protectionism

U.S. Commerce Secretary Carlos Gutierrez said last month in Beijing that both countries should prevent a rising tide of protectionism from blocking trade and investment.

American banks have sought a deal for China to raise its 25 percent ceiling on foreign ownership of domestic banks. Paulson, a former chief executive officer of Goldman Sachs Group Inc. who visited China more than 70 times, so far hasn't been able to secure such an agreement through his SED talks.

Investment treaties are designed to give companies the ability to appeal to foreign arbiters claiming that their investments have been unfairly expropriated or undermined by the host government. After Argentina froze electric utility rates following its economic meltdown in 2001, San Diego-based Sempra Energy filed a claim and was awarded \$172 million by a World Bank-affiliated arbitration panel.

Chen separately said today that China's foreign-exchange reserves may rise to \$1.8 trillion by the end of the year. The reserves totaled a record \$1.68 trillion as of March, a 40 percent jump from a year before, a product of China's swelling trade surplus and controls on the yuan's exchange rate.

Paulson set up the SED in 2006 to help manage economic tensions as U.S. legislators demanded that China allow a faster pace of gains in the yuan, charging the country with maintaining an artificially cheap currency to stoke exports.

Range of Talks

In the first day of this round of talks yesterday, the discussions ranged from the environment and intellectual- property rights to the environment and managing economic cycles.

The two countries today will also sign a 10-year plan to cooperate on energy and the environment. The accord will focus on air, water, clean energy, transportation, and conservation of forests and wetlands, Environmental Protection Agency Administrator Stephen Johnson told reporters yesterday.

People's Bank of China Governor Zhou Xiaochuan told reporters today that his top priority is keeping the country's inflation rate from rising above a 12-year high.

“Our main job is still preventing the economy from becoming overheated,” Zhou said in Annapolis. “Tackling inflation remains the most important task.”

Zhou also said yesterday that the weakening dollar is boosting commodity prices around the world and “emerging economies are feeling the pinch.”

To contact the reporter on this story: Mark Drajem in Washington at mdrajem@bloomberg.net, Rob Delaney in Annapolis at robdelaney@bloomberg.net