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China Says U.S. Investment Treaty On 'Fast Track'

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A bilateral investment treaty between China and the U.S. is on the 'fast track', so says the *China Daily* newspaper on Wednesday. The view from here is a bit different. Just last week, Treasury Secretary Jacob Lew, one of the brains behind a bilateral investment deal between the No. 1 and No. 2 economies, was at least two years away.

Lew and Secretary of State John Kerry are currently in Beijing to discuss a variety of issues, from defense to expanding investments at the sixth Strategic & Economic Dialogue (S&ED). The meetings were originally set up by President [Barack Obama](#) in his foreign [policy](#) shift towards Asia.

China and the U.S. are reportedly going to announce a timetable for the treaty on Thursday, Zhang Xiangchen, China's assistant minister of commerce, told a news briefing on Wednesday.

"Owing to different economic development levels between the two countries, we can expect difficulties will emerge on the talks on many terms, but the pact will be finally reached," [Zhang told](#) the *Daily*.



Shanghai as seen from the Yangtze River at night. The city has a free trade zone, one of China's latest pilot

programs designed to test out free market capitalism...China style, of course.

Further negotiations will be held in [Washington](#) DC in late July. Both sides want to get a document prepared to send to their respective lawmakers. In the U.S., that means U.S. Trade Representative, Treasury and State hammering out a document they can get to the Senate Foreign Relations Committee. From there, it would go to a vote in the Senate.

“If a (bilateral investment treaty) was going up today, it would pass the Senate,” said Neal Asbury, CEO of The Legacy Companies, manufacturers of food service equipment. “We need this treaty. China can pretty much buy anything they want over here, and we cannot do the same in China.”

The latest attempt at building a timetable will be a breakthrough for the treaty. Chen Fengying, director of the Institute of World Economic Studies at the China Institutes of Contemporary [International](#) Relations, told the *Daily*, “Once the road map is set, the talks are likely to be concluded before the end of this year.”

That might be wishful thinking. Even if a document is sent to the Senate Foreign Relations Committee, it could take another year just to get it ready for a vote.

A bilateral investment treaty would give the U.S. equal protection under the law in China, and open markets for greenfield investments and acquisitions whereas American firms would not have to partner with Chinese players or sign technological transfer agreements. Such agreements can lead to theft of intellectual property, a huge bone of contention right now between Beijing and Washington.

Washington is hoping that China remembers 2001, when the U.S. promoted China’s membership in the World Trade Organization. The U.S. clearly wants China to play by market rules, which would require China to be more liberal with its currency. It would also require China to do away with state subsidies to certain industries. For example, subsidies to China solar companies have hurt American competitors. In Massachusetts, Evergreen Solar closed its factory and moved to China in 2011, laying off 800 workers.

“On paper and in theory, both countries agree that a level playing field and open markets are the way to go. But in reality, we have seen that even with China’s ascension into the WTO, China did not reduce subsidies, which distorts that playing field,” says Usha V. Haaley, author of the book [Subsidies to Chinese Industry: State Capitalism, Business Strategy and Trade Policy](#) and a professor at West Virginia University. “State subsidies have transformed Chinese industries like steel, glass, paper, auto parts and solar into some of the leaders in the world. The policy makers in the U.S. have to understand where the money is coming from and that will be very murky.”

For its part, China has gingerly opened its markets through the use of pilot free trade zones, most recently in Shanghai. China is unlikely to move quickly from a state-controlled communist government, to a capitalist one. But in the meantime, U.S. industry is behind a bilateral investment treaty in hopes it can take part in that transition.

Max Baucus, the new American representative in China, told members of the American Chamber of Commerce recently that a bilateral investment treaty was his “top priority”.

Foreign direct investment from China averaged slightly less than \$1 billion in 2010-2012, or 0.5 percent of total FDI into the U.S. That number is on the rise. In 2012, Chinese companies invested \$10.3 billion in the U.S., up from \$9.3 billion in 2011 and just \$1.2 billion in 2008.

U.S. investment to China has been rather stagnant. In 2012, U.S. companies invested \$51.3 billion in China, down four consecutive years.

[Where China Invests In America](#)

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