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China, U.S. To Discuss Investment Treaty In Beijing This Week

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Heavyweights from Washington and Beijing will spend 48 hours trying to deepen their economic ties at the [sixth annual Strategic & Economic Dialogue](#)

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(<http://www.state.gov/r/pa/prs/ps/2014/05/225994.htm>) this week, but multinationals corporations won't be getting their hopes up. The goal is to eventually open China to U.S. style capitalism. For now, U.S. corporations are either hamstrung by local laws that demand joint ventures with Chinese firms, or transfer technological know-how to a country known for swiping intellectual property.

"Intellectual property is a problem for U.S. China relations, but for the Chinese this is a cultural issue," says Tom Doctoroff, CEO of the JWT ad firm in Shanghai. "This is a country that considers you an entrepreneur for creating a fake Apple store." (<http://www.bbc.com/news/technology-14503724>)

IP, cyber security, defense of the Asia Pacific and investment will be the main topic of discussion when Treasury Secretary Jacob Lew and Secretary of State John Kerry meet with Vice Premier Wang Yang and State Councilor Yang Jiechi on July 9.



Obama and Xi at Sunnylands in 2013. Treasury Secretary Lew and Secretary of State Kerry will be in Beijing this week to discuss the sixth Strategic & Economic Dialogue. For American companies, a bilateral investment treaty and intellectual property rights are front and center in this week's discussion.

The Dialogue meetings, initiated by President Obama as part of his Asian tilt efforts, hopes to get the ball rolling on a bilateral investment treaty. Estimates are that such a treaty is at least two years away.

The brains behind the treaty reside inside the Treasury, State and U.S. Trade Representative agencies who actually have a laundry list of complaints to share with the Chinese this week. [Whether it's the yuan-dollar peg \(http://online.wsj.com/articles/lew-to-press-china-on-yuan-appreciation-1404225396\)](http://online.wsj.com/articles/lew-to-press-china-on-yuan-appreciation-1404225396), or closed markets [for financial services firms. \(http://www.forbes.com/sites/kenrapoza/2014/04/05/u-s-financial-service-firms-push-for-bilateral-treaty-with-china/\)](http://www.forbes.com/sites/kenrapoza/2014/04/05/u-s-financial-service-firms-push-for-bilateral-treaty-with-china/) U.S. industry wants the government to finally force China's hands and get an investment treaty as soon as possible. But "fast", unfortunately, is not part of China's vocabulary when it comes to economic reforms.

"If anything, the current bilateral investment treaty as laid out by State and Treasury does not go far enough," says Neal Asbury, CEO of the Legacy Companies, a commercial and retail food service equipment maker.

"Our problem with China from a manufacturer's perspective is that they have access to our market, but we don't have access to theirs. If we had access to their market like they have ours, this trade deficit would quickly go away. A bilateral investment treaty is good for China, but really good for us."

Most Americans see China as America's low cost factory. But that story line is not as good as it used to be. American firms are no longer in China to make widgets to sell to Americans. They're in China to sell to the Chinese. Yet, access to the domestic market is restricted on a variety of levels that hamper U.S. progress in China. Companies usually have no control over their logistics, for example. Service sector companies, especially financial service firms, have no presence in mainland China. For now, the only access they have is through branches in Hong Kong. Financial firms want to be in Shanghai and Beijing. China has an easier time setting up a presence here than the U.S. does in China.

[A bilateral investment treaty \(https://www.uschina.org/sites/default/files/2014%20USCBC%20BITS%20-%20What%20They%20Are%20and%20Why%20They%20Matter.pdf\)](https://www.uschina.org/sites/default/files/2014%20USCBC%20BITS%20-%20What%20They%20Are%20and%20Why%20They%20Matter.pdf) evens the playing field in terms of legal processes required to set up a company and protects that company's assets from lawsuits and from the government itself.



Hong Kong based Shuanghui International spent nearly \$5 billion in 2013 to buy American pork producer Smithfield Foods Inc. Shuanghui was thinking of three things in the deal: the U.S. market, pork exports to China, and — just as important — bringing American-style food safety norms to their plants in China. Technological know-how was part of the reason for the acquisition.

Washington wants to add China to its current list of 42 nations with bilateral treaties. Countries like Ukraine and other ex-Soviet states all have bilateral investment treaties signed with the U.S., but that is mostly for the protection of U.S. firms in those small markets. What the U.S. wants from China is not simply a one way street. Washington clearly wants some of China's money, too.

In 2008, China direct investment in the U.S. was under two billion. By 2012, it was over \$10 billion. Meanwhile, U.S. investment in China has been holding relatively steady in the \$50 billion range, and has declined in some of those years. By comparison, China's investment continues to rise, [according to the U.S. Trade Representative](http://www.ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china). (<http://www.ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>)

This week's discussion is the tip of the iceberg.

"It is a very long process," [says Treasury Secretary Lew](#)



(<http://www.forbes.com/sites/kenrapoza/2014/07/02/report-says-china-real-estate-deflating-yet-prices-up-on-year/>). He was discussing his upcoming trip in a press conference last week organized by the U.S. China Business Council, a lobby firm. "We have continually encouraged our Chinese counterparts to open markets, and if there is any move in that direction, then it becomes a basis to move forward."

Last summer, Obama met China president Xi Jinping in Sunnylands, California in a meet-and-greet that led to handshakes and promises, but heartache remains.

China wants to move up the value chain, and needs technological know-how.

As it modernizes its economy, China's government wants to make sure it can protect existing jobs. For the time being, it needs state run enterprises to keep its full employment policy in tact. When it comes to the Strategic & Economic Dialogue, China plays offense while the U.S. plays defense.

In discussions with China, Obama's agents try to protect intellectual property and cyber space; they are trying to open Chinese markets and protect the dollar from what they see as an artificially weak Chinese currency.

China continues to take shots at the American goal, while the American side struggles to get the ball onto the other side of the pitch.

The prospects for them coming together on geopolitical and economic issues remain problematic.

"There are simply enormous institutional obstacles to enter and sell in China," says Usha V. Haley, a professor at West Virginia University and co-author of the book [Subsidies to Chinese Industry](http://www.chinasubsidies.com/index.htm) (<http://www.chinasubsidies.com/index.htm>) by Oxford University Press.

"The power of the state is increasing in China, not decreasing. I don't see how they will give up that power because of an investment treaty. The Chinese will benefit more because of the playing field. It's like a game of football, you can see your competitors, but your competitors cannot see you. The Americans can't see the Chinese players or the goal post. They see them through twisted mirrors."

Despite the differences, Washington is confident that a bilateral investment treaty will be approved by the Senate within three years. The Obama Administration is keen on making the U.S. an even bigger recipient of foreign capital. And everyone knows China is set to become a major exporter of capital in the future.

Foreign direct investment from China averaged just 0.5 percent of total investment into the U.S, while inflows from the much smaller Brazilian economy averaged over 1%. For China to become on par with Brazil it would mean a 50% increase in foreign direct investment into the U.S. economy.



"If a treaty was going up today it would pass the Senate," says Asbury. "China can pretty much buy anything they want over here, and we cannot. Everyone wants that to change as soon as possible."

In the Media:

[What You Need To Know About A China-U.S. Bilateral Investment Treaty](http://www.brookings.edu/blogs/up-front/posts/2014/07/07-us-china-strategic-economic-dialogue/) (<http://www.brookings.edu/blogs/up-front/posts/2014/07/07-us-china-strategic-economic-dialogue/>) – The Brookings Institute

[Lots Of Economic Dialogue, Little Strategy](http://www.realclearpolitics.com/articles/2014/07/06/lots_of_economic_dialogue_with_china_litt) (http://www.realclearpolitics.com/articles/2014/07/06/lots_of_economic_dialogue_with_china_litt) – Real Clear Politics

[S&ED Sparks Mini-Reset In U.S. China Relations](http://thediplomat.com/tag/u-s-china-strategic-and-economic-dialogue/) (<http://thediplomat.com/tag/u-s-china-strategic-and-economic-dialogue/>) – The Diplomat

Where China Invests In America



Frenemies forever?

The U.S. and China rarely see eye to eye. The U.S. wants China to invest more in the American economy, but to do so it demands China reform its markets and respect intellectual property. On July 9 and 10, Treasury Secretary Jacob Lew and Secretary of State John Kerry traveled to Beijing to discuss a bilateral investment treaty. A treaty, praised by U.S. corporations, is still around three years away, according to Lew. That hasn't stopped China from investing in the American economy. Here are the top 10 states where Chinese corporations are spending their money on acquisitions and greenfield projects. All data from

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