China's Wealth Fund Sets Sights on U.S.

By Lingling Wei


SHAWN KOH FOR THE WALL STREET JOURNAL

CIC chief Tu Guangshao says of the push into the U.S., 'We want to build up mutual trust.'

BEIJING—China's sovereign-wealth fund is ramping up efforts to crack open the U.S. market, looking to seize on a recent thaw in the two countries' trade relationship.

"There is a potential for Chinese companies to make more investments in the U.S. and vice versa," said **China Investment Corp.** President Tu Guangshao in an interview. "We want to build up mutual trust."

Encouraged by President Donald Trump's meeting with Chinese President Xi Jinping in Florida in April, and a broad plan announced last week to reset the two nations' trade and investment relationship, Mr. Tu said the fund hopes to "significantly increase" its direct foreign investments in the U.S. in the next few years.

On Friday, the fund, which has more than $200 billion in foreign assets, is opening a New York office, replacing what had been its only overseas representative office, in Toronto.

The move marks a shift in strategy: CIC had avoided a U.S. presence for years, frustrated by the investment environment there. "U.S. regulators have been hard on us," Mr. Tu said. "We can't even name one symbolic direct investment in America."

The fund, formed in 2007 as a way for China to diversify its stockpiles of foreign-exchange holdings, is closely watched by investors world-wide as a major source of capital and as a proxy for China's ambitions on the world stage.

In the past few years, it has sought to invest directly in U.S. real estate and infrastructure. But while U.S. holdings—mostly stocks and bonds—now exceed 40% of the fund's overseas portfolio, it has largely relied on outside asset managers such as **Blackstone Group** LP and **Carlyle Group** LP to invest in the U.S.

The fund has since 2011 used its Toronto presence to focus on energy- and resources-related deals in Canada and the U.S., but has pared its energy holdings in recent years as the resources boom ebbed. CIC has suffered losses on some of those deals.

Mr. Tu said CIC is now casting an eager eye at U.S. projects such as highways, rail lines and high-tech manufacturing plants. He said CIC can become a stable source of long-term capital for U.S. infrastructure and manufacturing projects, and help U.S. companies expand their footprint in the Chinese market.

A big reason for CIC's negligible direct holdings in the U.S., Mr. Tu said, is the "overly strict scrutiny and opaque investment-review process" U.S. authorities have applied to Chinese investors.

By comparison, he said, the British government has been more welcoming, enabling the fund to make some big-ticket investments, such as in Heathrow Airport and the utility Thames Water.

Mr. Tu's remarks echo complaints from Chinese officials and executives of high barriers to entry in the U.S., and what they say is an unfair review process by the Committee on Foreign Investment in the U.S., even if CFIUS doesn't formally block many bids.

Such criticism is mutual: American businesses have long expressed frustration over accessing China's markets.

Despite what Mr. Tu calls "very positive signals" recently, CIC's U.S. push faces a number of challenges. Of particular concern to CIC is the prospect the U.S. could single out Chinese investments for special scrutiny.

Such a move is part of changes to CFIUS that lawmakers from both parties are considering. There are also calls for assessing China's openness to U.S. investment in any given sector when evaluating Chinese investment in that sector. The Trump administration hasn't yet taken a position on possible changes to CFIUS.

Mr. Tu said CIC understands the need for the U.S. to conduct foreign-investment reviews for the purpose of safeguarding national security. But he urged U.S. authorities to improve the transparency of the process and avoid protectionism. "It's especially important that such scrutiny is not aimed at any single country or project," he said.

Regardless of any changes to CFIUS, many analysts say CIC likely will continue to be subject to a higher level of scrutiny in the U.S. than private investors because of its ties to China's central government. U.S. lawmakers have long said the fund's primary aim is to make purchases that serve Beijing's long-term strategic interests.

The trade plan, jointly announced by Washington and Beijing last week, indicates that the U.S. welcomes investment by Chinese entrepreneurs.

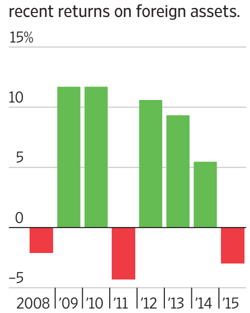
"That formulation leaves open the question of whether Chinese state investors are 'entrepreneurs,' " said Brad Setser, a senior fellow at the Council on Foreign Relations, a New York think tank. "I do not think we will know until there is a high-profile case where the administration has to weigh in."

The fund also plans to make more direct investments in developing countries as part of Mr. Xi's One Belt, One Road initiative.

—Bob Davis contributed to this article.

Power Dip

Energy holdings have hurt CIC's recent returns on foreign assets.



Source: the company

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Investors Don't Buy Beijing's Yuan Fix

China's central bank is guiding the currency higher, but the country's investors seem unconvinced.

The **People's Bank of China** on Wednesday fixed the yuan at 6.8635 per dollar, the strongest since Feb. 17, only to have it weaken to 6.88 within minutes of the 9:30 a.m. opening of trading. It ended slightly down from Tuesday's close, despite the stronger fix.

The gap between the central bank's fix and where the currency then trades in the onshore market has widened in recent days. Wednesday's discount was the largest since January.

Such a gap "suggests that the onshore market is still not fully convinced that the Chinese yuan will remain strong," said Irene Cheung, a senior strategist for Asia at ANZ in Singapore, adding that the central bank's fix has been biased to yuan strength for a while.

There are several possible reasons traders are betting on a decline in the yuan, which has advanced nearly 1% against the dollar this year.

While China's economic growth accelerated in the first quarter, many analysts still expect it to slow later in the year, which could lead the central bank to let the yuan weaken in an effort to boost exports. The latest industrial-output and fixed-asset-investment data showed the economy may be losing steam.

And though investors have slashed their strong-dollar bets as they reconsider President Donald Trump's ability to deliver the tax cuts and fiscal stimulus promised during his election campaign, markets still expect more U.S. interest-rate increases this year. Without matching action by China, that could make the dollar more attractive to investors than the yuan.

The yuan doesn't trade freely within China. It is limited to a band extended 2% above and below the daily level set by the central bank, which is based on where it ended the previous session and its movement against a basket of currencies.

Another sign that people inside China think the yuan should be weaker than the central bank does comes from China UnionPay, an issuer of credit and debit cards. Its own exchange rate—which it says is based on transactions in its system, excluding charges or markups—puts the dollar at 6.9036 yuan, stronger than on the onshore market.

But in offshore markets, where the yuan trades more freely and overseas investors are more able to express their views, the idea that it should be weaker than the central bank's fix doesn't seem to have taken hold as strongly.

During the frenzy of early 2016, the yuan weakened much more offshore than onshore, underscoring foreigners' bearishness on China. But that isn't the case now: The yuan is currently stronger offshore than onshore, as it has been for much of this year.

—Saumya Vaishampayan