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# China Says Investment Strategy Won't Hurt the U.S.

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BEIJING, March 16 -- Chinese Premier Wen Jiabao said plans to diversify the country's more than $1 trillion in reserves, roughly a third of which are held in U.S. Treasury bills, will not hurt the dollar or the American economy.

Speaking at the close of the annual session of parliament, Wen elaborated on China's plans to form an investment company to manage part of its foreign exchange reserves. The recently announced plan has led to questions about how much China will cut its vast purchases of dollar-denominated assets such as U.S. government bonds. Such purchases by foreigners and their governments have helped keep U.S. interest rates low.

"China's purchases of U.S. dollar-denominated assets are mutually beneficial," Wen said.

The Chinese government confirmed earlier this month that it would set up an agency similar to Singapore's Temasek Holdings, and state media outlets said the fund could get as much as $200 billion to invest.

Lou Jiwei, a former vice finance minister and former deputy governor of the Guizhou province, will manage the agency. China holds the world's largest stockpile of foreign reserves, with more than $350 billion of it in U.S. Treasuries.

Three-year bills earn 4.5 percent. Investing in stocks would have generated significantly higher yields for China; the Dow Jones industrial average was up 16 percent last year while the value of the Shanghai Stock Exchange more than doubled, growing 130 percent.

Wen offered no details about the types of investments the fund would make, but analysts say they would not expect radical moves such as changing all the dollar assets to euros. Yi Xianrong, researcher with the Chinese Academy of Social Sciences Institute of Finance, said it is "logical" to assume that the fund will concentrate on conservative investments.

R. Bruce McLean, chairman of D.C. lobbying firm Akin Gump Strauss Hauer Feld, was in Beijing this week to talk about outbound investment opportunities. He said he thinks the creation of the investment fund will actually be positive for the U.S. economy because a significant percentage of investments will likely go from U.S. Treasury bills to U.S. stocks.

Peter Alexander, principal of Z-Ben Advisors, a financial consultant in Shanghai, predicted that while fund managers will stay away from traditional assets and invest in natural resources and oil, a significant percentage of holdings will be in U.S. equities.

"It's not in China's best interest to destabilize the U.S. economy, period," Alexander said. The United States is China's most important trading partner.

In his statement Friday, Wen said China still needed to build up experience in overseas investment. "Compared with developed countries, China's outbound investment is tiny," he said.

*Researcher Catherine Matacic contributed to this report.*