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Wall Street's march into China increasingly at odds with Biden's tough stance

Bankers see a deep-pocketed customer where others see a potential U.S. enemy

By David J. Lynch

National security adviser Jake Sullivan singled out Goldman Sachs by name when he briefed reporters last month on the Biden administration's new approach to trade policy.

But Sullivan didn't offer the customary praise for a bank that has produced treasury secretaries for presidents of both parties and historically has wielded as much influence in Washington as in New York.

"Our priority is not to get access for Goldman Sachs in China Sullivan," said at the White House. "Our priority is to make sure that we are dealing with China's trade abuses that are harming American jobs and American workers in the United States."

Sullivan's remarks may have been a blow to Goldman's pride, but they left its overseas ambitions intact. Despite the rebuke, and the deteriorating U.S.-China relationship, Goldman is on the brink of achieving a decades-old dream: becoming the first foreign bank to obtain 100 percent ownership of its Chinese joint venture.

Goldman's determined march into China shows how the interests of corporate America and the White House are continuing to diverge despite the election of a more conventional president.

If some executives had hoped the new administration would resume a business-friendly approach to China, __the early signals from the White House__ and the diplomatic front have been disappointing. U.S. and Chinese diplomats, in their first high-level meeting since President Biden's inauguration, swapped acrimony and insults this past week during an extraordinary two-day summit in Alaska.

Hundreds of billions of dollars in contracts and capital flows could depend on how the corporate world adapts to the Biden administration's largely confrontational approach to a rising China.

"China has tried to use Wall Street in the past to provide ballast in the relationship," said Ryan Hass, a former Obama administration China specialist. "The Chinese are surprisingly confident that they're going to be able to enlist the financial services sector and corporate chieftains to nudge the Biden administration in their preferred direction. But I expect China's efforts to have a diminished influence on Biden relative to previous administrations."

That's because in this populist age, banks and corporations are no longer playing their traditional role in shaping U.S. trade policy.

The White House separation from big business originated under president Donald Trump. Robert E. Lighthizer, his chief trade negotiator and a former lawyer for U.S. Steel, startled corporate representatives early in his tenure by disparaging them as "special interests" in appearances before the Business Roundtable and the U.S.-China Business Council.

Lighthizer assembled a new trade coalition involving labor-friendly Democrats in Congress. When he negotiated a North American trade deal, he eliminated special tribunals that allowed corporations to end-run Mexico's legal system, calling it an implicit subsidy for offshoring.

Biden endorsed that stance during the 2020 campaign, an early sign of common ground between the restorationist Democrat and his disruptive Republican predecessor.
Still, there were limits to the corporate eclipse. Wall Street was among the big winners in Trump's China trade deal. In January 2020, when he hosted an elaborate White House signing ceremony, the East Room welcomed dozens of chief executives including financiers from Citibank and JPMorgan Chase.

Biden aides say they will prioritize the needs of American workers over those of corporations. Yet China's growing domestic wealth and swift recovery from the pandemic make it a top priority not just for banks like Goldman Sachs or JPMorgan, but also for Hollywood, consumer goods makers and Silicon Valley.

General Motors has sold more cars in China than in the United States for 11 consecutive years. Apple's sales in China, including Hong Kong and Taiwan, rose by 57 percent last quarter, almost five times its growth back home. Overall, the United States is buying more Chinese goods each month than it was before the trade war that began in 2018.

But policymakers who once saw commerce as a way to knit a rising China into the global system now increasingly fear it could make a hostile nation only more powerful. Technology companies already have begun thinning their ties to China under U.S. government pressure. Additional restrictions on American trade and investment flows may loom.

"We're watching very, very closely so we don't get caught out in shifting sands," said one financial industry executive, who spoke on the condition of anonymity to discuss the political climate.

Goldman is an example of U.S. corporations' patient cultivation of Chinese profits.
Over four decades of economic reform, foreign bankers' fortunes in China have waxed and waned. Former treasury secretary Hank Paulson, who presided over Goldman's early successes in China as the bank's president and chief operating officer, likened Western bankers in the 1990s to "Promethean figures," writing in his memoirs: "We jetted in and competed to show the Chinese how to kindle the fire of capital markets."

The 2008 financial crisis, however, disabused Chinese officials of any heroic notions about the visiting financiers. Beijing instead worried that rushed market openings might destabilize the financial system.

Goldman opened its first China offices, in Beijing and Shanghai, five years after Deng Xiaoping used Chinese tanks to quell pro-democracy protests in Tiananmen Square. In 2004, the bank launched a joint venture with Beijing Gao Hua Securities, taking the maximum permitted one-third stake for foreign investors.

Goldman's Chinese operation had lofty goals but delivered anemic profits. During the past three years, the bank's entire Asia operation generated just $1.1 billion of Goldman's $28.4 billion net income, according to securities filings.

The 2020 U.S.-China trade deal eliminated the foreign ownership cap, allowing Goldman to buy out its Chinese partner. Richard Gnodde, chief executive of Goldman Sachs International, told investors at the time that the bank by mid-decade could capture a lucrative share of an estimated $100 billion in potential revenue.

Goldman's private wealth management unit covets China's affluent urban professionals as customers for investment advice. Foreign investors have been pumping money into Chinese financial markets, lured by higher interest rates and a rising local currency, which inflates their dollar profits.

"The investment banks are operating in politically much more treacherous waters than they were just a few years ago, given both the domestic political atmosphere and the continuing U.S.-China tensions. But as long as they can navigate the rough seas, they can make quite a bit of money," said Andrew Collier, managing director at Orient Capital Research in Hong Kong. "Congress can put modest limits on the exposure of Western capital to China but realistically can't close the door completely."

U.S. investors hold about $1.1 trillion in stocks and about $100 billion in bonds issued by Chinese entities, about five times what is captured in official U.S. statistics, according to a report by Rhodium Group and the National Committee on U.S.-China Relations.
By the end of 2020, Goldman had extended $17.5 billion in financing to Chinese companies and government agencies, almost twice the figure from two years earlier, according to its securities filings. During the next five years, the bank plans to double its local workforce to about 600.

For its part, China wants to cultivate foreign executives as sympathetic voices in their home countries while obtaining foreign expertise to make its financial markets a more efficient way for bank-dependent Chinese companies to raise cash.
"The Chinese are going to increasingly permit U.S. financial institutions to operate in China. It benefits both the U.S. and China to have that integration," said Brent McIntosh of the Council on Foreign Relations, who until January was the Treasury Department's top diplomat. "The question is: Do the other sources of tension in the relationship bleed over and make business more difficult for them?"

There are reasons to think they will. In a new Gallup survey, 45 percent of Americans said China is the United States' "greatest enemy," twice the percentage that said so last year.

U.S. banks are increasingly worried that their compliance with the growing number of U.S. financial sanctions on Chinese officials and companies will leave them vulnerable to retaliation by Beijing.

"Industry is still trying to figure out how to thread the needle and keep in the good graces of both Washington and Beijing," said Scott Kennedy, senior adviser at the Center for Strategic and International Studies. "I don't think they're figured that out yet."

In the waning days of the Trump administration, the United States levied sanctions on Chinese officials for repressing the Hong Kong democracy movement, banned cotton imports from Muslim-majority Xinjiang province following U.S. allegations of genocide and barred U.S. investment in companies linked to China's People's Liberation Army.

Those restrictions are expected to have only a limited impact on the U.S. financial industry. But Wall Street worries that a further deterioration in relations, magnified by a political dynamic in Washington that makes it nearly impossible to be too tough on China, could upset its plans.

"Wall Street is worried the military list will become a slippery slope," said Derek Scissors, a China specialist at the American Enterprise Institute.

Already, Secretary of State Antony Blinken has endorsed his predecessor's assessment that Chinese policies in Xinjiang — where more than 1 million Muslims have been detained in government-run camps — amount to genocide. On Monday, the Treasury Department announced financial sanctions on two senior Chinese officials tied to the ongoing human rights abuses there.
That came just days after the administration imposed sanctions on 24 Chinese officials it said were linked to repression in Hong Kong. Among those targeted was Wang Chen, a member of the Communist Party's ruling Politburo.

Redrawing the limits of appropriate ties to the world's second-largest economy is one of the few Washington issues that commands bipartisan backing.

"There is no doubt that America can and must do more to restrict the flow of U.S. dollars into China. Wall Street and the genocidal regime in Beijing are the chief beneficiaries of the status quo," said Sen. Marco Rubio (R-Fla.), a prominent critic of the Chinese government.

But any new investment restrictions could boomerang on the U.S. economy and the Biden administration, said Dan Rosen, a founding partner of Rhodium Group, an independent research provider. To compete economically with China, the United States needs a sophisticated financial industry, which requires experience in the second-largest economy in the world.

"Wall Street and Main Street are in this together, whether they like it or not," Rosen said.