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# *The Worst China Trade Idea*

## *Banning investment would hurt the U.S. and reformers in Beijing.*

***By* The Editorial Board**

**The Trump Administration is looking for ways to pressure China to change its trade practices, but how about not hurting the U.S. along the way? The latest shoot-self-in-foot moment came Friday when word leaked that the White House may restrict bilateral U.S.-China investment. Bloomberg News reported that the Administration may also block Chinese companies like Alibaba from listing on U.S. stock exchanges.**

**Rising stock prices went in reverse, and that's no surprise. A blanket ban on bilateral investment is a good way to hurt America while making Chinese reform less likely.**

**The delisting of Chinese companies is especially foolish. American financial exchanges are sources of U.S. economic strength, but they compete in a global market. Foreign firms can choose to list in London or Hong Kong or Frankfurt as easily as on the Nasdaq or the New York Stock Exchange. Banning Chinese companies from U.S. exchanges would merely hurt those American businesses and U.S. capital markets. The damage to the Chinese firms would be minor because investors would still be able to raise capital elsewhere.**

**One benefit of listing on U.S. exchanges is that it obliges foreign firms to meet American regulatory standards for disclosure to investors. The White House would not be protecting American investors by forcing Chinese companies to list on foreign stock exchanges where the rules are less rigorous.**

**A ban on bilateral capital flows would be even more destructive. Hundreds of American firms already do business in China, many of them profitably, and they will need to keep investing to stay competitive. Direct U.S. investment in China from 1990 to June 2019 was**

**$276.38 billion, according to the U.S.-China FDI Project. An arbitrary ban on investment could make much of that a stranded investment that would hurt those companies and inevitably their employees in America too.**

**The U.S. also benefits from Chinese investment, which totaled $148.33 billion from 1990 to June 2019. Some of this finances new businesses or goes to buy U.S. firms that need the capital to expand at home or reach new markets abroad. If Chinese companies and individuals can't invest in the U.S., they will find other places in the world to do so and those economies will be stronger for it.**

**An investment ban sounds like something from the mind of Peter Navarro, the White House trade adviser who wants to decouple the U.S. and Chinese economies. He sees tariffs as a way to break up existing supply chains, and an investment ban would over time sharply reduce U.S.-China economic interaction. This is misguided as a strategy for promoting change in China, and it's not what President Trump says he's trying to achieve.**

**Mr. Trump has said that the point of his tariffs is to cause the Chinese to change their predatory trade practices. The goal is to get the world's second largest economy to play by international trade rules. The Chinese have their own debate between economic reformers and mercantile nationalists. U.S. policy should aim to support the reformers, but trying to cut off all Chinese trade and investment from the U.S. plays into the hands of the mercantilists. They'll say the U.S. will punish China no matter how it behaves, and they'll have a point.**

**A smart policy would punish Chinese companies that break the rules while allowing access to those that play fair. The 2018 revisions to the Committee on Foreign Investment in the U.S. statute give the Trump Administration plenty of authority to restrict investment on national security grounds.**

**By all means do so when Chinese companies pose a risk of cybertheft, espionage, or to the energy grid or national defense. But a political ban on two-way capital flows will accomplish little beyond damaging America's economic growth.**