

# Musk and Dimon are not alone in sticking with China, despite tensions

## *Investors grappling with political risks around U.S.-China ties*

By David J. Lynch

**Top American companies are struggling to devise new strategies for the Chinese market, as government policies in both Washington and Beijing push the two nations apart and economic growth in China slows from its customary torrid pace.**

The latest boardroom action came this week, when Sequoia Capital, a Silicon Valley firm that was among the early investors in TikTok parent ByteDance, said it would split its China and U.S. operations into separate companies.

The move, which analysts said was partly a response to transpacific tensions, came as investment giants BlackRock and Goldman Sachs said **U.S. investors were wary of political risks surrounding business in China** — and as two-way trade flows continue to shrink.

While President Biden last month predicted a coming “thaw” in relations with Beijing, U.S. companies that sell to Chinese customers use China as a manufacturing base or invest there see both capitals as threats to their profits.

In China, the government in recent months launched investigations of two American consulting firms and banned Chinese companies from buying computer chips made by another U.S. company, Micron, saying they threaten national security.

**The Chinese action followed the Biden administration’s decision last fall to prohibit the sale of the most advanced U.S. semiconductors to China, also on national security grounds.** The administration is expected to issue new restrictions within weeks on U.S. investments in Chinese technology ventures.

Some on Capitol Hill want to accelerate the commercial divorce.

“American businesses need to take off the golden blindfolds and open their eyes to the strategic risk inherent when it comes to operating in China,” Rep. Mike Gallagher (R-Wis.), chairman of the House Select Committee on China, said in an interview. **“Business leaders,**

if they think they can continue business as usual, are ignoring political reality on the Hill, but also they're ignoring the geopolitical reality that their business will stop when [Chinese President] Xi Jinping decides it's going to stop ... I just don't know how anyone thinks that business as usual is sustainable.”

Sorting out which deals might run afoul of government officials in one or both countries is growing more difficult, especially for companies involved in sensitive technologies such as semiconductors or those who conduct corporate research in China. **The political landscape is growing more complex** just as China's economy — after decades of rapid growth — is set to slow, from an annual pace of 5.2 percent this year to little more than 3 percent five years from now, according to International Monetary Fund forecasts.

“If the risk is higher and growth is lower, that changes your competitive strategy,” said Myron Brilliant, senior counselor with Dentons Global Advisors-ASG. “That's why companies are insulating themselves a little bit more.”

**Companies are adopting different strategies depending on their industry and specific tax and regulatory considerations**, analysts said.

Some who rely on Chinese factories, such as Apple, are adding backup suppliers in countries such as Vietnam and India to guard against unexpected headaches. Others, like Sequoia, are **localizing their corporate structure to limit the financial damage from shifting geopolitical winds**. The prominent Silicon Valley firm plans to split into three separate companies, covering the United States and Europe; China; and India and Southeast Asia.

The Chinese branches of the consulting and due diligence firms that Beijing's security officials raided starting in late March — the Mintz Group and Bain & Co. — are frozen while the investigations proceed, leaving other executives to wonder if they might be next.

“There's not a company in China that hasn't had to do a top-to-bottom assessment of everything,” said Scott Kennedy, senior adviser for the Center on Strategic and International Studies. **“The majority of companies are in some type of de-risking strategy, trying to remain in China and do business globally.”**

To be sure, dozens of U.S.-based companies — including household names like Procter & Gamble and General Motors — remain committed to China's 1.4 billion-person market. Tesla CEO Elon Musk visited China last month, telling Foreign Minister Qin Gang that the two countries are like “conjoined twins,” which cannot be separated.

JPMorgan Chase CEO Jamie Dimon also **ruled out a full “decoupling”** of the United States and China on a recent visit to Shanghai.

“Over time there'll be less trade,” Dimon told Bloomberg Television. “It'll take years for this thing to take place, but it won't be a decoupling and the world will go on.”

**Starting five years ago, President Donald Trump's tariffs on Chinese imports began to remake the U.S.-China trade relationship.** U.S. anger over China's lack of transparency over the origins of the coronavirus, and the supply chain disruptions during the pandemic, further thinned those links.

Through the first four months of this year, the inflation-adjusted value of U.S.-China trade was down 21 percent from the same period last year, according to Alfredo Carrillo Obregon, a Cato Institute research associate. If cargo continues moving at the current pace for the rest of the year, the annual figure would be roughly 26 percent below its 2018 peak.

**The decline illustrates moves by manufacturers to shift production from China to countries such as Vietnam or Malaysia,** as well as a post-pandemic shift in U.S. consumers' spending from goods to in-person services such as restaurant meals, movies and sporting events.

**Biden has retained most of the Trump tariffs, disappointing those in the business community who had expected him to reverse his predecessor.**

**In recent weeks, the president has tried to re-engage with the Chinese** government. National security adviser Jake Sullivan met in Vienna with Wang Yi, a member of the Chinese Politburo, in a productive two-day session that revived flagging White House hopes for progress with Beijing. Commerce Secretary Gina Raimondo and Katherine Tai, the chief U.S. trade negotiator, later held separate meetings on economic issues with Commerce Minister Wang Wentao.

Secretary of State Antony Blinken is expected to visit Beijing soon, followed by Treasury Secretary Janet L. Yellen.

U.S. officials have spoken of erecting "guardrails" through dialogue to prevent the relationship from veering into open conflict. But the results of any short-term warming are likely to be modest.

Xi is pursuing his own effort to limit China's dependence on foreign markets while increasing other countries' reliance on China under what he calls a "dual-circulation" policy.

In Washington, **there is bipartisan skepticism about China's intentions,** amid complaints over Beijing's mercantilist trade practices and stance toward Taiwan, the self-governing island that China claims as its territory. Gallagher derides Biden's diplomatic efforts as "zombie engagement."

U.S. business executives are in denial about Xi's aims, including his desire to decouple China from the United States and gain control of Taiwan, Gallagher said. The former Marine officer is pushing American companies to rethink their ties with China.

"We need to stop fueling our own destruction," Gallagher said. "We are, to paraphrase Lenin, vying for the rope they will ultimately hang us with."

Last month, Gallagher and 10 members of the **House China committee** traveled to California for meetings with Silicon Valley investors and Hollywood executives about their business with China. The talks were cordial, but Gallagher's actions have stirred unease in the business community.

Established by the House Republican majority this year, the committee already has opened investigations into what it called allegations of forced labor use in the Xinjiang province by four companies: Nike, Adidas, Shein and Temu, a shopping app.

In a statement, Shein said it had “zero tolerance” for forced labor and no suppliers in Xinjiang. The company said it is cooperating with the committee. In response to emailed requests, Nike, Adidas and Temu offered no comment.

**The political clouds over U.S.-China commercial links have discouraged many institutional investors from expanding their Chinese activities.** Canada's Caisse de dépôt et placement du Québec, one of the country's largest pension funds, stopped making private investments in China and closed its Shanghai office. Public employee retirement plans in Florida and Texas last year reduced or eliminated their Chinese holdings.

**“Most of the large western funds believe China is now ‘uninvestable’ due both to geopolitical risks and economic growth,”** said Andrew Collier, an economist with GlobalSource Partners in Hong Kong.

Over the last three months, investors have pulled more than \$25 billion from the Chinese bond market while adding less than \$1 billion to their holdings of Chinese stocks, according to the Institute of International Finance.

Stephanie Hui, head of Goldman Sachs's private equity business in Asia, told a Hong Kong investor conference last month that she was no longer raising money from American investors for new Chinese deals. Amid the cool relations between the United States and China — and the prospect of **new Biden administration restrictions on outbound investments** — institutions are reluctant to gamble on stakes in Chinese companies.

“We are seeing an increase in investor preference to focus closer to home. This is certainly the case with China, which is drawing more interest on a relative basis from pools of capital within Asia,” a Goldman Sachs spokesperson said.