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Decoupling Threatens China's Enduring Interest in US Capital

Photographer: Bloomberg

By Enda Curran
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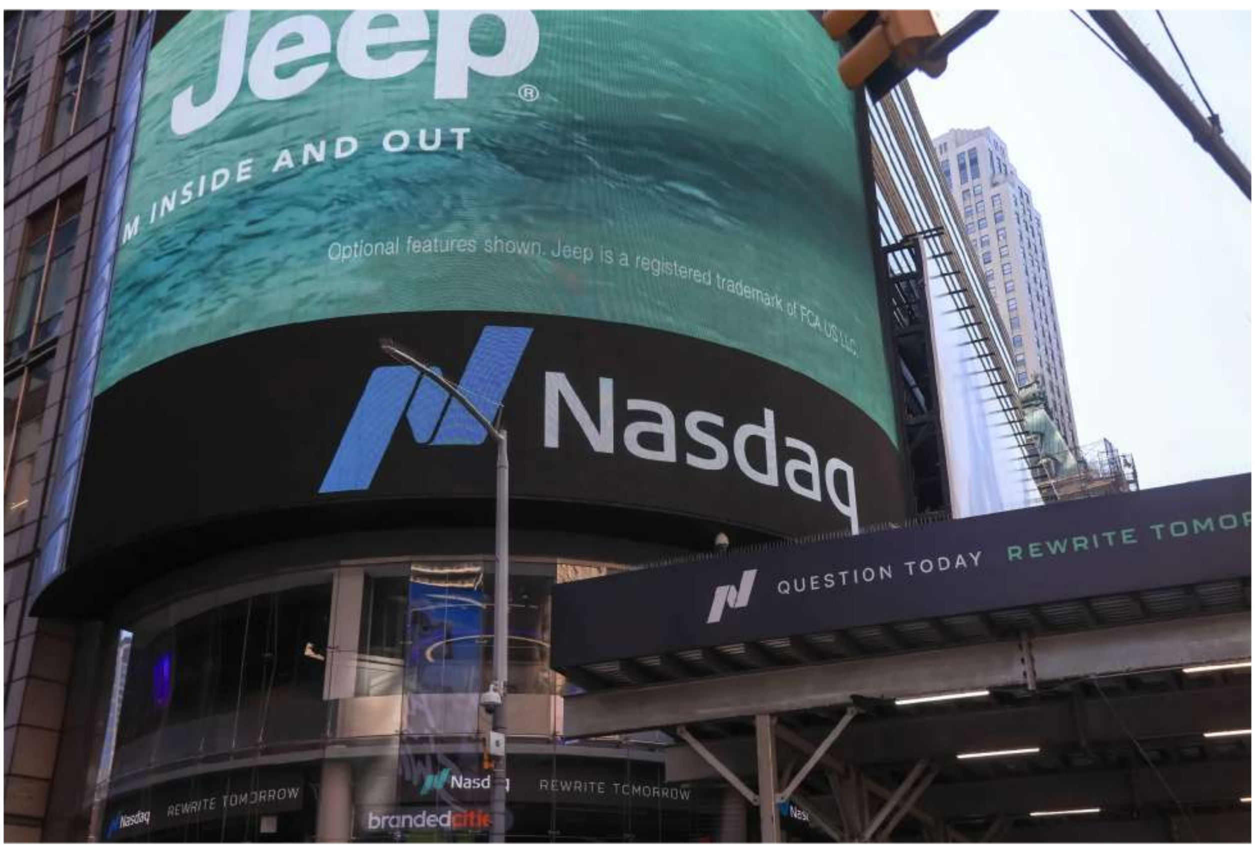
In the US, Chinese insurance broker Yuanbao Inc. isn't a household name on Main Street. It's unlikely to be known by many on Wall Street, either.

But that didn't stop the Beijing-based company from raising $30 million when it listed on the Nasdaq Stock Market last month. Its shares briefly soared as much as 93% above their initial price before retreating. And it's not alone: Tea chain Chagee Holdings Ltd. raised $411 million in its US initial public offering last month while also seeing its shares rally.

The listings came a few months after President Donald Trump triggered a fresh review of Chinese companies' access to American capital, and during a bout of volatility in equity markets spurred by his global trade war. Even as American and then Chinese tariffs soared to levels that effectively created a trade embargo, the appeal of listing in the US endured.

"Despite all the bilateral tensions, Chinese companies still seem to see benefits in the positive signaling effects of successful listings on US exchanges," says Eswar Prasad, who once led the International Monetary Fund's China team and is now at Cornell University. Besides tapping US capital pools, there's likely also a "halo effect" of listing there that helps lower firms' cost of capital in other markets, he says.

In one sense, the moves underscore Treasury Secretary Scott Bessent's contention in a speech Monday that the US is the "Schelling point" of global finance: the place everyone decides voluntarily to meet. But, depending on how US-China trade negotiations (set to kick off Saturday in Geneva) proceed, the risk is that finance will be one more area of decoupling between the world's two biggest economies.



Chinese insurance broker Yuanbao Inc. listed on Nasdaq in April, showcasing enduring interest among China's companies in US capital markets. *Photographer: Michael Nagle/Bloomberg*

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US-China interest in collaboration in the financial sphere is two-sided. Just as some Chinese firms remain interested in listing in the US, some American banks are eager to retain Chinese IPO business abroad.

In April, a US congressional committee called for Bank of America Corp. and JPMorgan Chase & Co. to withdraw from working on a planned Hong Kong listing for China's CATL, the world's largest maker of batteries for electric vehicles. But according to documents dated Tuesday, both banks are still working on it.

Such deals would have been unremarkable during the go-go years of US and Chinese trade, back when the term "Chimerica" was in vogue. But now Trump has placed all aspects of bilateral economic ties in doubt, from US imports of small-value items for individual consumers to outbound American investment into Chinese enterprises.

Even if the talks in Switzerland (headed by Vice Premier He Lifeng for China and Jamieson Greer and Bessent for the US) result in some de-escalation, economists are expecting high barriers to remain. The latest trial balloon floated by Trump came on Friday, with him musing that an 80% tariff seemed "right."

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In the financial world, market analysts have speculated on the risk of more than 200 Chinese companies listed in the US being forced to pull out of American capital markets. Longtime China watcher Andrew Collier mapped out a limited universe of Chinese enterprises likely to keep seeking to raise capital in the US.

"Any Chinese company with domestic revenue that is insulated from trade tensions will be attractive to international investors," says the senior fellow at the Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School. "These are isolated stocks that do not reflect larger macroeconomic or geopolitical issues. They are one-offs designed to raise capital for a specific market."

There's plenty of scope for money flows between the two nations to continue to erode. China Investment Corp., Beijing's $1.3 trillion sovereign wealth fund, is cutting exposure in US private markets to curb risks, Bloomberg recently reported.

Scott Bessent *Photographer: Pete Kiehart/Bloomberg*

In Washington, lawmakers on both sides of the aisle are eager to restrict China's access – a sentiment that was on display at two hearings in the House this week featuring Bessent.

The Treasury secretary cautioned that any legislation on outbound US investment into China be "flexible" and reflect "all the nuance that goes with this."

Democratic Representative Brad Sherman pushed back. He asked the former hedge fund manager "are we just fine with encouraging Americans to invest abroad?" When he pressed Bessent on one type of outflow, Bessent responded, "Well, sir, we don't want to close the capital account."

With that sort of backdrop, along with Trump's executive order in January demanding an "America First Investment Policy" that would, if upheld as legal, trigger potentially sweeping changes, the danger of financial decoupling is real.

"Chinese companies listing on US exchanges face a significant risk that a US administration now or in the future could seek to delist of these financial products as a tool in the broader economic tussle with China," Prasad says.

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