US-China trade dispute

Beijing and Wall Street deepen ties despite geopolitical rivalry

China and US finance defy Donald Trump's trade and tech war with growing investments

China's economy has reopened after the coronavirus pandemic, prompting many US investors and financial services companies to look to the country for returns © AFP via Getty Images

Tom Mitchell in Singapore and **Thomas Hale** and **Hudson Lockett** in Hong Kong
YESTERDAY

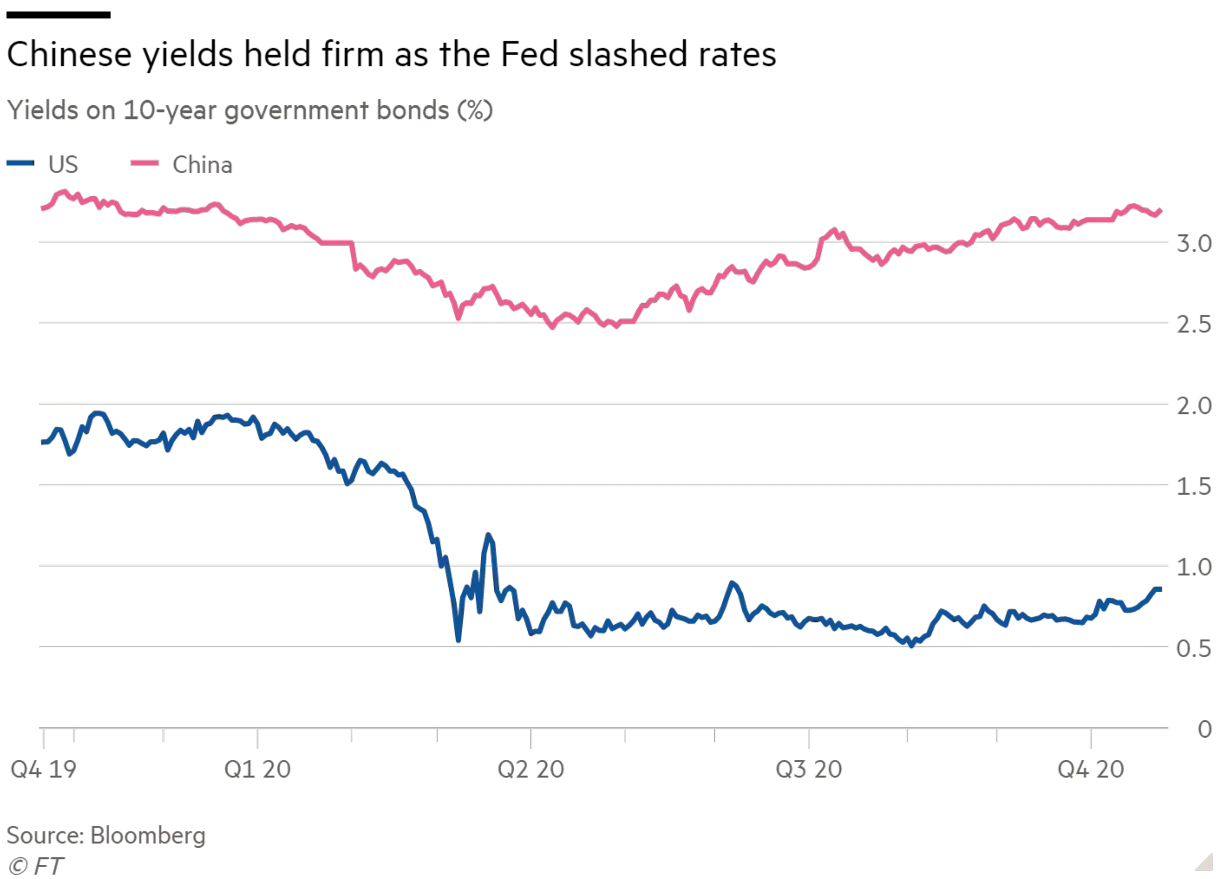
A day after US president Donald Trump announced a new initiative to thwart Beijing's alleged efforts to "steal" US technology, senior Chinese financial officials and Wall Street bankers sat down for a teleconference.

One participant in the China-US Financial Roundtable, established two years ago at a time of heightened trade tensions between the world's two biggest economies, said it had been a pretty "generic" forum aimed at "fostering goodwill" and enhancing financial integration between the world's two largest economies.

But the forum, which convened on October 16 according to four people briefed on the discussions, also highlights a rare positive front in Sino-US relations: finance, as Beijing attempts to speed up market reforms and attract foreign capital.

Over the first eight months of this year, the amount of Chinese onshore bonds held by foreign institutional investors increased more than 20 per cent year on year to Rmb2.8tn ($421bn), according to Fitch Ratings. Foreign investors have accounted for about 12 per cent of all purchases of Chinese government and policy bank bonds this year, according to Refinitiv.

Separately, Wall Street groups including BlackRock, Citigroup and JPMorgan Chase have each been given approval to expand their businesses in China over recent months.



The increased financial flows and regulatory approvals have coincided with loose central bank policies elsewhere, pushing the bond yields that underpin global portfolio allocations to historic lows. The 10-year yield on Chinese government bonds is 3.18 per cent compared with 0.8 per cent in the US.

“Money is starting to pour into China because they’re looking for that income,” said Hayden Briscoe, head of fixed income for Asia Pacific at UBS Asset Management. “It’s a really interesting point in history — the Chinese have opened up and you’ve got the rest of the world in dire straits.”

"Economic imperatives are certainly overriding political concerns," added Eswar Prasad, an expert on China's financial system at Cornell University. "Ultimately, private capital and private financial institutions are going to respond more to economic incentives irrespective of what political masters say."

Industry executives say Beijing is partly motivated by geopolitical concerns. "China wants to pre-empt possible US financial sanctions in the context of worsening relations," said a China-based executive at a large global fund manager. "That is why you see a flurry of opening up right now. If you integrate into global financial markets and accelerate coupling by opening to foreign players, then you reduce US leverage."

The executive added that the more business Wall Street does in China, the more incentive the US investment banking industry would have to [lobby the Trump administration](#) to dial down tensions with Beijing.

Wall Street organisations that have participated in the forum since September 2018 include Blackstone, Citadel, Fidelity, Goldman Sachs, JPMorgan and Morgan Stanley. The session held two weeks ago was originally scheduled to be held in Washington in April but was postponed because of the coronavirus pandemic.

American participants say they have made clear to their counterparts that the anti-China sentiment stoked by Mr Trump is broad-based and will not go away even if he loses next month's election to Joe Biden.

In private, Chinese officials argue that they are simply accelerating a longer-term agenda focused on their own market's needs.

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> **Adam McCabe, Aberdeen Standard Investments**

Last week's roundtable included sessions on technical market reforms and the broader Sino-US relationship, according to participants. Guest speakers included Kevin Rudd, the former Australian prime minister and sinologist, and Jeffrey Bader, who advised Barack Obama, the former US president, on Asian security issues.

One senior Chinese government official, who asked not to be identified, said the greater financial opening would help regulators address major challenges. These include poor corporate governance at many domestic companies, a lack of innovation in the sector and an under-developed regulatory regime. “We hope the introduction of foreign players will help address these problems,” the official said.

The fund management executive added that such goals, and Beijing’s longer term objective of increasing the renminbi’s attractiveness as a reserve currency vis-à-vis the dollar, were “impossible to do if you rely solely on Bank of China — it needs the JPMorgans, BlackRocks and Vanguards for it to be successful”.

Outside China, the renminbi accounts for only about 3 per cent of central bank reserves compared with 62, 20 and 5.7 per cent respectively for the dollar, euro and yen.

From the perspective of foreign investors, China’s bond market has simply become too big to ignore, especially given the higher yields it offers.

In two decades, China’s onshore bond market has grown sixtyfold to about $14tn, overtaking Japan’s to become the world’s second-largest. But foreign investors remain under-represented. JPMorgan Asset Management estimates overseas ownership of onshore government debt has increased from 2 per cent to 9 per cent in recent years, but remains well below the 15-30 per cent typically held by foreign investors in other Asian markets.

Chinese government bonds were added to one of the world’s most important bond indices last month, paving the way for about $140bn of inflows.

“If you’re looking at a large market like China that’s opening up, you don’t want to wait until everyone else has invested into it — you want to be the first man,” said Adam McCabe, head of fixed income for Asia and Australia at Aberdeen Standard Investments.

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Additional reporting by Sun Yu, Sherry Fei Ju and Jamil Anderlini