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By Nardello & Co.

Enticement and Dissonance: Wall Street Bets on China in Spite of Tensions

Amid worsening US-China relations, US financial institutions are doubling down on the world's second largest economy. Enticed by China's loosening of foreign ownership rules in the financial sector, American financial institutions are pursuing an unprecedented opportunity to capitalize on the country's largely untapped domestic savings market. BlackRock and Goldman Sachs have already secured wealth management deals with China Construction Bank and Industrial and Commercial Bank of China, respectively, and other Western asset managers will inevitably follow.

At stake is the disproportionately high percentage of Chinese savings that lies dormant in bank accounts and property. In 2019, China had a savings rate of 44% compared with 18.2% in the US, according to the World Bank.[1] Wall Street hopes to alter this dynamic by using Chinese financial institutions, which currently lack sophisticated wealth management products, as channels for their wares. US financial institutions are also bullish that greater access to China will unlock a new source of high-growth investments for non-Chinese clients. "Quite simply, the opportunity is huge. And almost completely untapped," said one Hong Kong-based American financier of his company's push into China.

Yet, Wall Street's enthusiasm for deepening its exposure to China sits uncomfortably next to the Biden administration's declaration that the era of "engagement [with China] has come to an end." US financial institutions in particular have faced increased scrutiny as bilateral relations have plummeted, with bombastic condemnation from prominent China hawks entering the political mainstream. US Senator Marco Rubio recently referred to Wall Street's involvement with China as tantamount to "national economic suicide." Though less hyperbolic in tone, National Security Advisor Jake Sullivan captured the prevailing attitudes in Washington in February, noting that the Biden administration's "priority is not to get access for Goldman Sachs in China."

The difference in perspectives is also notable for the attitude of Hong Kong-based US asset managers in the face of Western criticism of Beijing's continuing crackdown on political dissent in Asia's financial capital. In the eyes of US financial institutions, the Chinese market is too colossal to ignore. As another Hong Kong-based American fund manager remarked, "The US and China are actually quite similar economically... Financial institutions see through the political noise." Far removed from Washington, US financiers in Hong Kong tend to view the prospect of further punitive actions against China as "unlikely" and manageable, short of the category of blanket sanctions of the kind applied to Iran and Sudan—an almost unimaginable prospect for China, which held $1.09 trillion in Treasury holdings as of April 2021.[2]

Whether this current push by US asset managers leads to a partial resuscitation of 'Chimerica'—a term of some currency a decade ago describing an optimistic state of economic relations between China and the US—remains to be seen. It will certainly complicate the work of policymakers in Washington keen to see American business get on board with the Biden administration's vision of "extreme competition." Beijing, meanwhile, will be hoping that US financial institutions will help moderate Washington's current foreign policy hawkishness, though the domestic political dividends of demonizing Wall Street are likely to prove as irresistible to China hawks as Chinese savings are to BlackRock and Goldman Sachs. Chinese financial institutions, for their part, will certainly benefit from Western expertise and know-how.

Skeptics might point to earlier chapters in China's economic liberalization as reasons to doubt the notion that US financial institutions will be allowed to make serious long-term inroads in China. Once Chinese banks gain the sophistication to provide wealth management services independently of their American counterparts, what use will the latter serve? This is a valid concern, but the outcome is not foreordained. US financial institutions may be successful in leveraging their reputations and performance to secure the loyalty of Chinese investors even after local banks start offering competing products. The task of capitalizing on this opportunity will require significant investment and fortitude, not to mention the continued blessing of the Chinese government.

Whatever the outcome of Wall Street's bet on China, Beijing will no doubt be pleased with what it says in the short-term. US financial firms have recognized China's importance in spite of Washington's rhetoric. This recognition will almost certainly be billed as an archetypical 'win-win.' The victor has only to wait.

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[1] https://data.worldbank.org/indicator/NY.GDS.TOTL.ZS

[2] https://ticdata.treasury.gov/Publish/mfh.txt

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