

Opinion **US-China trade dispute**

Republican stance on free markets is shifting when it comes to China

Despite the priority traditionally given to the free flow of capital, many now argue that Beijing should be the exception

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Senator Tom Cotton's recent speech was a sign of how far the economic consensus has shifted against globalisation © Tom Williams/CQ Roll Call/Bloomberg

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The Ronald Reagan Presidential Library is playing host this year to prominent Republicans speaking about their party's future. Senator Tom Cotton used his recent turn to disavow the longstanding alliance on America's right-of-centre between conservatives and libertarians. "Whereas libertarian ideas have helpfully influenced domestic tax and regulatory policy," [he said](#), "these ideas often falter in a world of borders. There's no natural level of people, goods, or money moving across borders; it's a policy choice that must be made by the people and their representatives."

Despite the priority that the Republican party has traditionally given to the free flow of capital, elevating it almost to a core principle, a wide range of conservatives are now making the case that China should be the exception. Cotton is one such intellectual bellwether. His speech was a sign of how far the economic consensus has shifted against globalisation. Investors should anticipate major policy responses, he made clear, in financial markets.

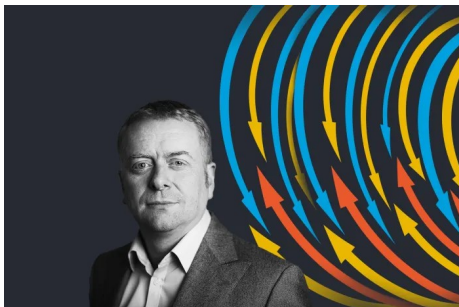
Since 2020, Beijing has been [opening China's financial markets](#) to foreign participation, setting off a gold rush led by US firms like BlackRock, Goldman Sachs, and JPMorgan Chase. The latter two, as well as Citigroup, have [received permission in recent months](#) to operate wholly-owned investment banking ventures, which the

Chinese Communist party hopes will facilitate greater inbound investment and acquisition of foreign assets. The banks, for their part, hope to earn a great deal of money.

Some US policymakers have other ideas. For his part, Cotton argued that America “ought to ban US investment in strategic Chinese industries and encourage reshoring of US factories and jobs — and punish offshoring to China. Further, we need to scrutinise and regulate Chinese investment in America much more closely.” In a 2021 report he highlighted a wide range of “financial weapons”.

Republican senator Marco Rubio is another outspoken critic of globalisation. In December, he sent an [open letter](#) to his colleagues, declaring it a “strategic disaster” that “American financial investment is pouring into [China] at its highest rate ever” and seeking support for his “American Financial Markets Integrity and Security Act,” which would block investment in Chinese companies flagged by the Departments of Defense and Commerce.

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Even bastions of free-market dogma like the Heritage Foundation and the American Enterprise Institute (AEI) are repositioning themselves. Speaking in January, Heritage president Kevin Roberts [announced](#) that his organisation is “investing resources . . . to help [state legislatures] write legislation that divests their state-level investments from companies that are engaged with China”. The AEI director of economic policy studies, Michael Strain, recently [acknowledged](#) that, because of “the geopolitical situation that we’re in”, a dollar invested in Shanghai raises concerns that one in Berlin would not.

Financial flows are gaining attention over imports for a number of reasons. Capital is fungible in ways goods and services are not,

so the economic effect of curtailing one source or destination is less economically disruptive. Chinese components in telecommunications equipment may be unwise, but Chinese ownership of the domestic network is much worse. Purchasing something that had forced labour somewhere in its supply chain may be unsavoury, but it can also feel unavoidable. Investing in the company that forces the labour is indefensible.

Cracking down on Wall Street may be the first step, but a broader decoupling is the logical endpoint. Last month, Republican senator Rick Scott’s “[11-Point Plan to Rescue America](#)” contained a distinctive final bullet point: “We will gradually end all imports from Communist China until a new regime honours basic human rights and freedoms.” If that becomes standard GOP fare, watch out.

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