Trump Signals Tighter Controls on US-China Investment

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KEY POINTS

- President Trump's **America First Investment Policy** memorandum would fast track approvals for investments from US allies and partners while tightening scrutiny over investments from and to China.
- **The authority of the Committee on Foreign Investment in the United States (CFIUS) would be expanded** to cover foreign investments in a broader range of US "emerging and foundational technologies" and sectors.
- The USG would also **further restrict outbound investment** to China in tech sectors and from a greater variety of sources.
- A revision to the existing US-China tax and tariff regimes could lead to **higher taxes on cross-border investment-related income and increase tariffs** on goods and services from China.
- **Stocks** connected to Chinese entities traded in the US market may face higher audit standards.
- How China responds and **how the US economy and Wall Street react** are likely to affect the Trump administration's implementation of the policy measures.
- China's annual legislative meeting that begins next week will provide a venue for Beijing to **discuss the countermeasures that its ministries have vowed to take.**

LONG-PLANNED POLICY BLUEPRINT

On February 21, the White House released a memorandum from President Trump outlining **an America First Investment Policy (AFIP)**, drawing on sources such as the Trump-Vance campaign platform "Agenda 47', the Heritage Foundation's "Project 2025", and the America First Policy Institute's "China Policy Initiative." Stating that "economic security is national security," the memo **focuses heavily on risks emanating from the PRC** (including Hong Kong and Macau). It aims to fast-track investments from US allies and partners while tightening scrutiny over two-way investment flows between the US and China and stipulates that actions must be taken to deal with challenges posed by "PRC-affiliated investors" that are **"targeting the crown jewels of United States technology, food supplies, farmland, minerals, natural resources, ports, and shipping terminals**."

The same day, USTR began soliciting public comment on **a proposed Section 301 investigation of China's advancement of its maritime, logistics and shipbuilding sectors**. China's Ministry of Commerce opposed both initiatives, pledging to closely monitor the developments and take necessary countermeasures to protect Chinese interests.

KEY IMPLICATIONS OF THE "AMERICA FIRST INVESTMENT POLICY"

Here are the key implications for investment flows between the two countries.

Investment Flows: China → US

- Chinese companies will face **a less welcoming environment** in the US even as the administration encourages relocation of foreign manufacturers to the market. We anticipate that restrictions on Chinese investments will remain or intensify in emerging technological sectors such as biotech. **However, there may be openings in other sectors where the US is dependent on Chinese technologies.** US House Select Committee on China's ranking member Raja Krishnamoorthi said today at an event that President Trump may still want to welcome investments by Chinese-controlled entities, efforts that he would not oppose "so long as we are cognized of any national security implications." **He said there is room for discussion on potentially licensing Chinese technologies to US companies to enable them to catch up.** Chinese battery maker CATL, for example, has stated its willingness to open a plant in the US should the Trump administration approve it.

- The memo said that "**restrictions on foreign investors' access to United States assets will ease in proportion to their verifiable distance and independence**" from adversary countries such as China as they seek to invest in US "critical technology, critical infrastructure, personal data, and other sensitive areas." Foreign investors may in some cases **be encouraged to dismantle or reduce their links with China** in order to take advantage of US industrial policies. However, implementation could be challenging due to **the ambiguity of terms like "verifiable distance and independence"** and **the complexities of global supply chains**, where China plays a significant role.

- The memo requires **an expansion of CFIUS authority in scrutinizing investments from China to include greenfield investments and a broader range of "emerging and foundational" technologies.** Sectors such as "technology, critical infrastructure, healthcare, agriculture, energy, raw materials, or other strategic sectors" are highlighted for risks, and restrictions on foreign adversary access to US talent and operations in sensitive technologies — "**especially artificial intelligence**" — will be tightened.

- **The memo indicates that China stocks traded in the US securities markets —** including companies incorporated in China or a foreign jurisdiction — **could face higher audit standards.** This could force some Chinese companies to delist from US stock markets should they fail to meet adequate audit standards, a long festering issue that was resolved in August 2022, when American and Chinese regulators agreed on an information-sharing deal. The Trump administration will also review **companies registered through variable interest entity (VIE) and subsidiary structures**.

Investment Flows: US → China

- The memo would expand US outbound investment controls to include more cutting-edge technological sectors such as "**biotechnology, hypersonics, aerospace, advanced manufacturing, directed energy, and other areas implicated by the PRC's national Military-Civil Fusion strategy**." This would mark an enlargement of the scope of rules finalized under President Joe Biden in October 2024, which were focused on semiconductors and microelectronics, quantum information technologies, and artificial intelligence.

- **Trump's outbound investment controls will likely target more diversified investment types and funding sources.** The policy memo stated that the USG would "consider applying restrictions on investment types including private equity, venture capital, **greenfield investments, corporate expansions**, and **investments in publicly traded securities**," as well as scrutinize US funding "from sources including **pension funds, university endowments**, and other limited-partner investors." The memo declared: "It is past time for American universities to stop supporting foreign adversaries with their investment decisions." The Biden administration's rules had offered exceptions to investments in certain publicly traded securities or index and mutual funds, as long as the US person does not have a control in investment targets. **It is unclear if the Trump administration is interested in keeping such exceptions.**

Two-Way Investment Flows

- The Trump administration plans to consider whether to halt or end the 1984 United States -The People's Republic of China Income Tax Convention and the Most Favored Nation status the US grants to China. "We will seek to reverse both those trends," it announced. **Major overhauls to the two regimes may result in higher taxes on cross-border investment incomes, such as dividends and interest, and increase tariffs on goods and services from China**.

HOW WILL IT PLAY OUT?

There is no doubt that the trade and investment policies rolled out in the first month of President Trump's second term are the result of **considerable preparation and coordination**, as noted above. And they are likely to be well received by a China-skeptical Congress controlled by Trump's party.

What is less clear, however, is how the president will react if his economic policies lead to inflation, widespread voter dissatisfaction, or a stock market slump. It remains to see if Trump and his team, who include Wall Street veterans Treasury Secretary Scott Bessent and Commerce Secretary Howard Lutnick, may then seek to moderate their implementation. Some of these policy proposals, of course, may also be intended as bargaining chips for President Trump in his negotiation with Chinese President Xi Jinping**.**

Beijing has anticipated intensified competition with Washington, but Trump may have surprised them by the scope and intensity of his adversarial policies. Beijing may therefore feel compelled to **roll out stronger measures to support domestic consumption and perhaps offer more lucrative tax, foreign exchange, and investment policies to maintain its market's attractiveness to foreign investors.** The Chinese leadership will certainly also continue to seek closer economic and investment ties with countries in Europe, Asia, South America, and elsewhere to diversify risks. **China's annual top legislative meeting**, scheduled to begin March 5, will shed light on how Beijing plans to manage its economy and its increasingly fragile ties to the United States. Stay tuned.