NATIONAL SECURITY

Trump Eases Demand for New Tools to Limit Chinese Investment

President suggests he will rely on 1988 law being updated by Congress that lets U.S. review foreign investments

President Donald Trump spoke during a meeting with Republican lawmakers in the White House on Tuesday. **PHOTO:** EVAN VUCCI/ASSOCIATED PRESS

By Bob Davis

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WASHINGTON—President Donald Trump suggested he would scrap plans for new restrictions on Chinese investment in U.S. technology and rely mainly on existing tools that some of his advisers have labeled inadequate to guard against the purchase—and theft—of innovations vital to the U.S. economy.

“We have the greatest technology in the world. People come and steal it,” he said in response to questions from reporters at the White House on Tuesday. “We have to protect that and that can be done through CFIUS,” referring to an interagency group, the Committee on Foreign Investment in the U.S., which screens foreign investments to see whether they endanger national security.

He called a recent article in The Wall Street Journal that the administration was planning two further initiatives, in addition to CFIUS, to prevent Beijing from obtaining advanced U.S. technology “a bad leak...probably just made up.”

As recently as Sunday, administration officials and others who work closely with the administration had said the plans for the restrictions were on track, though Mr. Trump hadn’t yet approved them.

If Mr. Trump's decision holds, it would represent a significant easing of threats the president has made against China and a possible olive branch to Beijing before the July 6 imposition of the first tariffs on Chinese goods under the Trump administration's trade offensive. The new policy is planned for release on Wednesday, administration officials said.

"This suggests that some rationality might be returning to the approaches on trade and investment restrictions," said Cornell University economist Eswar Prasad, who speaks often with Chinese officials. "But it doesn't necessarily signal a pullback from [a] hard-line stance on China."

Investment restrictions in addition to CFIUS have long been part of the administration's planned efforts to keep China from moving ahead with plans outlined in its "Made in China 2025" report to become a global leader in 10 broad areas of technology, including information technology, aerospace, electric vehicles and biotechnology. A May 29 White House statement said the policies would be aimed at "Chinese persons and entities" that seek to acquire "industrially significant technology."

Lawmakers who have worked on a bill to overhaul CFIUS have also been arguing in administration meetings that additional investment restrictions weren't necessary. "The legislative change is "designed to deal with a narrow but important aspect of dual-use technology that's being compromised by strategic investments by countries like China," said Senate Majority Whip John Cornyn, a Texas Republican, in an interview.

A bill to strengthen CFIUS passed the House on Tuesday by a 400-2 margin. A similar measure has already passed the Senate and the two versions now need to be reconciled. It would assure CFIUS reviews of more transactions, particularly those involving state-owned firms. It would also create a new export-control system to review whether overseas joint ventures are improperly transferring critical technologies to foreign companies.

Industry lobbyists and China experts attribute Mr. Trump's shift to recent declines in the stock market and to U.S. companies getting battered by tariffs in U.S. trade battles with the European Union, Canada, Mexico and China.

Mr. Trump warned Harley-Davidson Inc. early Tuesday that moving production overseas would mark "the beginning of the end" of the iconic brand, a day after the manufacturer said it planned to make more motorcycles abroad to avoid EU tariffs.

A Harley-Davidson plant in Menomonee Falls, Wis., this month. PHOTO: SCOTT OLSON/GETTY IMAGES

People familiar with the Trump White House deliberations said the president wasn't reacting to the markets. Rather, the plans for restrictions had run up against a number of legal obstacles, among other problems, they said.

The Dow Jones Industrial Average edged higher on Tuesday to close at 24283.11.

Relying mainly on CFIUS—if that is the final decision—would be a big victory for Treasury Secretary Steven Mnuchin, National Economic Council Director Larry Kudlow and others who have tried to tamp down the burgeoning trade battle with China. Mr. Mnuchin has been concerned that the investment restrictions could be interpreted abroad as a first step to shutting down the U.S. market.

“The United States is one of the world’s most open investment environments and will remain a leading destination for international investment,” he told foreign investors in June.

The decision would also mark the end for now of the ascendancy of the so-called nationalist wing represented by White House trade adviser Peter Navarro and U.S. Trade Representative Robert Lighthizer. The two camps have jockeyed for power for months over the China issue and the battle is sure to continue.

Mr. Lighthizer, for instance, has seen the investment restrictions as an important part of the U.S. trade arsenal. CFIUS is “limited in terms of national security,” he said on Fox Business Network in June. The new investment restrictions—now scrapped—would “have a broader definition of national security.”

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Matthew Goodman, an Asia expert at the Center for Strategic and International Studies who served in the Obama administration, said that a new form of investment restriction would be useful because CFIUS is supposed to focus solely on national security, not economic competitiveness. Scrapping the investment restriction plans seems “to be removing a useful tool for taking on what the administration has described as problematic Chinese practices.”

Using CFIUS, the Obama and Trump administrations have largely halted Chinese efforts to buy U.S. semiconductor companies and helped put a big crimp on Chinese investment overall. According to Rhodium Group, a market-research firm, Chinese investments were down 92% in the first half of 2018 from a year earlier, to $1.8 billion, because of Chinese curbs on credit and U.S. scrutiny of Chinese deals.

And yet, Mr. Navarro, among others in the Trump administration, worry that CFIUS hadn’t been effective at halting Chinese acquisition of biotechnology or small venture capital investments in companies that could spawn new technologies.

The shift on the investment restrictions still leaves the U.S. and China at loggerheads over trade. China has threatened to match the first U.S. tariffs of 25% on $50 billion of Chinese goods. Should China do that, Mr. Trump has threatened 10% tariffs on as much as $400 billion of Chinese imports.

Beijing has a multitude of ways to bring pressure on the U.S., including ramping up regulatory reviews of U.S. companies, handing out licenses to operate in China to U.S. competitors and organizing consumer boycotts of U.S. goods.

Mr. Prasad, the Cornell China expert, said Beijing will still be wary of trying to cut a deal with the U.S., given the ups and downs in U.S. decision making. “It might help the Chinese believe they should stay engaged with less protectionist forces [in the administration] to prevent rising tensions,” he said. “But that will be a tough sell” in Beijing.

—Siobhan Hughes contributed to this article.

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