

fastFT US trade

Trump chooses softer option on China investments

White House decides against new regime to block Beijing's acquisition of US technology



Donald Trump and Xi Jinping during Mr Trump's 2017 visit to Beijing © Bloomberg
Shawn Donnan in Washington 3 HOURS AGO

The Trump administration has decided against creating a new regime to review [Chinese investment](#) in the US and will instead use an updated version of the existing national security screening process to try to block Beijing's efforts to acquire sensitive US technologies.

In a call with reporters on Wednesday senior administration officials said that President [Donald Trump](#) has after months of internal deliberations decided to use the existing inter-agency Committee on Foreign Investment in the US as his main tool to review China's investments.

The president, they said, had decided that bipartisan legislation in Congress to update and broaden Cfius would give him a "strong and effective mechanism" to deal with Beijing's attempts to buy up US technology companies.

"This legislation . . . will enhance our ability to protect the United States from new and evolving threats posed by foreign investment while also sustaining the strong, open investment environment to which our country is committed and which benefits our economy and our people," Mr Trump said in a statement.

Mr Trump said once the bill became law he would direct officials to implement the new statute "promptly and enforce it rigorously, with a view toward addressing the concerns regarding state-

directed investment in critical technologies” identified in his administration’s investigation into China’s intellectual property practices. He also said he had ordered officials to conduct a review of the US export controls system as called for in the legislation.

The move is the latest in the Trump administration’s escalating trade war with China. The US is set to begin imposing tariffs on \$34bn in imports from China on July 6 and Beijing has promised to retaliate in similar fashion. Mr Trump has also threatened to levy tariffs on up to \$400bn more in goods from China.

The decision to use Cfius is, however, a blow to [China hawks](#) in the administration who had publicly called for establishing a new regime to review Chinese investment. Administration officials insisted on Wednesday that it would not represent any softening in their approach to China.

“We believe that we will have a very tough approach,” one senior official said.

Steven Mnuchin, the US Treasury secretary and an advocate for both the softer option and a negotiated solution to the current trade stand-off with China, said the decision to use Cfius was not meant to target Chinese investment alone. But he said the new legislation would allow the US to address concerns over Beijing’s use of joint ventures in China which force US companies to transfer important technologies to local partners.

“One of the problems of Cfius before was we could block an acquisition but then a company could go form a joint venture and we couldn’t block that,” he told CNBC. “If someone sets up a joint venture on critical technologies that would have been blocked, they will also be prohibited from transferring that technology through a joint venture. That is new and that’s part of the legislation.”

Hawks including White House [trade](#) adviser Peter Navarro and Robert Lighthizer, the US trade representative, had been pushing for the US to invoke a 1970s statute used to govern sanctions against rogue states such as Iran and North Korea and to declare a national economic emergency. They also had been pushing for the US to extend its scrutiny of investments beyond national security threats to “industrially significant” sectors. Such a move would have given the president potentially broader powers to police inbound investments.

According to administration officials and people briefed on the internal discussions the hawks appeared to be winning the debate as recently as late last week with an executive order having been drafted that would have declared a national economic emergency.

In a sign of the direction the debate was moving the White House in a May 29 statement declared that the US would “implement specific investment restrictions and enhanced export controls for Chinese persons and entities related to the acquisition of industrially significant technology” and announce them by June 30.

People briefed on the discussions said questions over how such a new regime would work and whether it would withstand legal challenges had dogged the idea. But Mr Trump, after initially seeming to back it, also appeared to have been spooked by the reaction of financial markets to reports it was due to be announced this week.

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US and European markets rallied on Wednesday in response to news that the White House had chosen the more moderate option. US equities futures sharply trimmed earlier losses and Treasury yields came off their session lows in premarket trading. The pan-European Stoxx 600 gauge traded higher and the German Dax, which is seen as particularly sensitive to the skirmish between the US and China, was up 1 per cent on the day.

Cfius, which is supposed to review foreign investments in the US only for potential threats to national security, has long been a target of complaints from Beijing. Officials there argue that it appears to discriminate against Chinese investors.

“Strengthening the Cfius process rather than setting up new procedures means no additional hurdles but the existing hurdle will become more daunting,” said Eswar Prasad, a Cornell University economist and former China mission chief for the International Monetary Fund. “Chinese investments into the US, especially in high-tech sectors, will no doubt face considerable additional scrutiny in the period ahead.”

Cfius has already increased scrutiny of Chinese investment in recent years and both Mr Trump and his predecessor, Barack Obama, have used the committee to block acquisitions of semiconductor companies as well as others in strategic sectors.

Partly as a result of that, Chinese foreign direct investment in the US has fallen in recent years. According to the Rhodium Group, a consultancy, Chinese foreign direct investment in the US plunged more than 90 per cent to just \$1.8bn in the first half of 2018 compared with the same period last year. In 2016, Chinese companies made a record \$46bn in foreign direct investment in the US.

The bipartisan legislation to extend the scope of the transactions that Cfius can review cleared the House of Representatives by a 400-2 vote on Tuesday. It has already been passed by the Senate. But the two chambers must reconcile some differences in versions of the bill before it can be sent to Mr Trump to sign.

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