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Trump Backs Softer Restrictions on Chinese Investment

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WASHINGTON — President Trump said his administration will take a more moderate approach to limit Chinese investment in the United States, rejecting more aggressive restrictions that would have imposed new curbs on Beijing and further inflamed a trade dispute between the two countries.

Mr. Trump said on Wednesday morning that he supports a bipartisan push in Congress to expand the authority of the Committee on Foreign Investment in the United States, or Cfius, which reviews foreign investments for security threats. Mr. Trump said he will back an expansion of the committee's powers to address concerns about China buying stakes in American companies in order to acquire valuable technology and trade secrets.

"I have concluded that such legislation will provide additional tools to combat the predatory investment practices that threaten our critical technology leadership, national security, and future economic prosperity," Mr. Trump said in a statement on Wednesday morning.

The administration had been considering much more draconian curbs on Chinese investment as punishment for what the White House has said is years of China "stealing" intellectual property from the United States. While the expansion of Cfius will likely curb Chinese investments, it is not as targeted a measure as the administration had been contemplating. If approved by Congress, the legislation would give the administration greater power to curb investments globally — not just those from China — by expanding the types of transactions Cfius can review, including minority stakes in American companies and real estate transactions near military bases or other national security facilities.

[Read more about Cfius.]

The White House decision to take a less aggressive approach toward China comes as the two countries remain locked in a bitter trade dispute, with escalating threats of tariffs between the world's two economic giants. Mr. Trump has said he is prepared to impose tariffs on as much as \$450 billion in Chinese goods as punishment for Beijing's trade practices, and is scheduled to put levies on \$34 billion worth of products into place on July 6. Beijing has countered with its own threat of reciprocal tariffs on American products.

Mr. Trump is also waging trade fights with other countries, including the European Union, Mexico and Canada. The White House has already imposed tariffs on foreign steel and aluminum and is threatening to put 20 percent tariffs on autos imported into the United States.

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Steven Mnuchin, the Treasury secretary, insisted on Wednesday that the Trump administration is not pursuing a protectionist approach and is actually trying to prod other countries to lower their trade barriers. While the approach announced on Wednesday represents a de-escalation with China, it did not appear that the countries were any closer to a resolution.

“Our objective is not to single out China or treat them differently, but that we have the necessary tools to protect U.S. investments,” Mr. Mnuchin said. “I’m not going to make specific comments on where we are in dialogue, but if China wants to come to the table with free and fair trade and treating American companies fairly and reducing the trade deficit, we’re always willing to listen.”

Eswar Prasad, a professor of international trade at Cornell University, said the president’s announcement suggested “a brief lull in the economic hostilities against China.”

“For now at least, the momentum within the administration has swung back in favor of Mnuchin and others who favor a less confrontational approach to the economic relationship with China,” he said. “However, with the imposition of tariffs against China just a few days away, this apparent respite in economic hostilities could prove to be all too fleeting.”

Administration officials who laid out the decision in an early morning briefing said Mr. Trump had been pleased with the evolution of congressional legislation to expand Cfius and that he viewed it as an “extremely powerful tool” to safeguard national security. The overhaul would include a list of “countries of special concern” that allow Cfius to review investments from those nations, but stops short of specifically naming China as the target.

The legislation, which already passed the Senate and passed the House on Tuesday, must still get a final vote from Congress. While final passage appears likely, it is not guaranteed and Mr. Trump said he would be prepared to “deploy new tools, developed under existing authorities” if lawmakers do not act to “protect the crown jewels of American technology and intellectual property from transfers and acquisitions that threaten our national security — and future economic prosperity.”

The officials also said Mr. Trump will direct the heads of the Commerce Department and other federal agencies to review the nation's existing system of export controls and recommend any needed changes. That could have a more significant effect on United States companies than restrictions on Chinese investment, since it would limit the ability of American companies to sell a range of products to China. The White House has targeted specific products that it wants to prevent China from dominating, including robotics, artificial intelligence and new energy vehicles.

The legislation currently working its way through Congress would expand the authority of Cfius, including by giving it power to examine investments in which foreign parties hold minority stakes, as well as real estate transactions near military bases and other sensitive facilities. It would also update the process by which the government monitors the export of critical technologies to foreign companies, to give national security personnel a greater role in monitoring overseas joint ventures and other partnerships.

Mr. Trump had foreshadowed his growing interest in expanding existing controls on Tuesday. "We have the great scientists, we have the great brains," he said Tuesday. "We're going to protect it. And that's what we were doing. And that can be done through Cfius. We have a lot of things we can do it through. And we're working that out."

The decision represents a victory for Mr. Trump's more moderate economic advisers, including Mr. Mnuchin, who has tried to use his clout with the president to defuse trade tensions with China. It is also likely to help repair ties with Republican lawmakers, who have worked for months crafting their own legislation to reform the Cfius process, and have clashed with the president over his own trade goals, including the imposition of tariffs on foreign allies and his decision to rescue Chinese telecom firm ZTE.

However, some lawmakers who have advocated the toughest stance against China warned the administration against backing down.

"If in fact President Trump is now backtracking on tough limits on Chinese investment, it is a VERY BIG MISTAKE," Marco Rubio, a Republican senator from Florida, wrote Tuesday evening before the White House announcement. "China is strategically buying up U.S. companies specializing in cutting edge technology. What they don't steal from us they buy away from us."

But others, such as Representative Kevin Brady of Texas, the Republican chairman of the Ways and Means Committee, praised Mr. Trump for taking "tough action" to prevent any country from stealing American technology through investment.

Mr. Trump's decision came after a turbulent few days, as financial markets were rocked by the prospect of a worsening dispute with China and Mr. Mnuchin took to twitter to decry leaks and "fake news" about the administration's plans.

While the debate internal debate over how to deal with China has at times boiled over in frustration the White House and even shouting matches, Mr. Mnuchin, who leads Cfius, tried to downplay the differences among Mr. Trump's economic team. He said that the decision on investment restrictions was unanimous and explained that he has worked closely for a long time with Wilbur Ross, the Commerce Department secretary, and Peter Navarro, Mr. Trump's trade adviser who like Mr. Mnuchin worked on Mr. Trump's campaign.

"We have different views, and the benefit of the president having different advisers is at times we will express different views, and that's a healthy process," Mr. Mnuchin said. "At the end of the day I respect that it's the president's decision."

Eileen Sullivan contributed reporting