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Trump's Lattice Rejection Highlights Growing Furor over Chinese Money

President's decision to block Beijing-backed fund's purchase of chip maker does little to settle debate on U.S. approach to foreign acquisitions

By Julie Steinberg

President Donald Trump's rejection last week of a Beijing-backed fund's attempt to acquire a U.S. semiconductor company was for many in Washington an easy call because it involved a sensitive sector and funding from the Chinese government.

The decision did little, however, to settle a debate on Capitol Hill over how the U.S. should approach foreign acquisitions that the government perceives to be less clear-cut. At issue is how to balance the need to protect national security with the desire to stay open to foreign investment, especially when the money is coming from China, a military and economic rival.

In rejecting Canyon Bridge Capital Partners Inc.'s attempt to buy Lattice Semiconductor Corp. , which is based in Portland, Ore., Mr. Trump declined to overrule a recommendation by the Committee on Foreign Investment in the U.S. to block the transaction. CFIUS is a multiagency panel that reviews deals for national-security concerns.

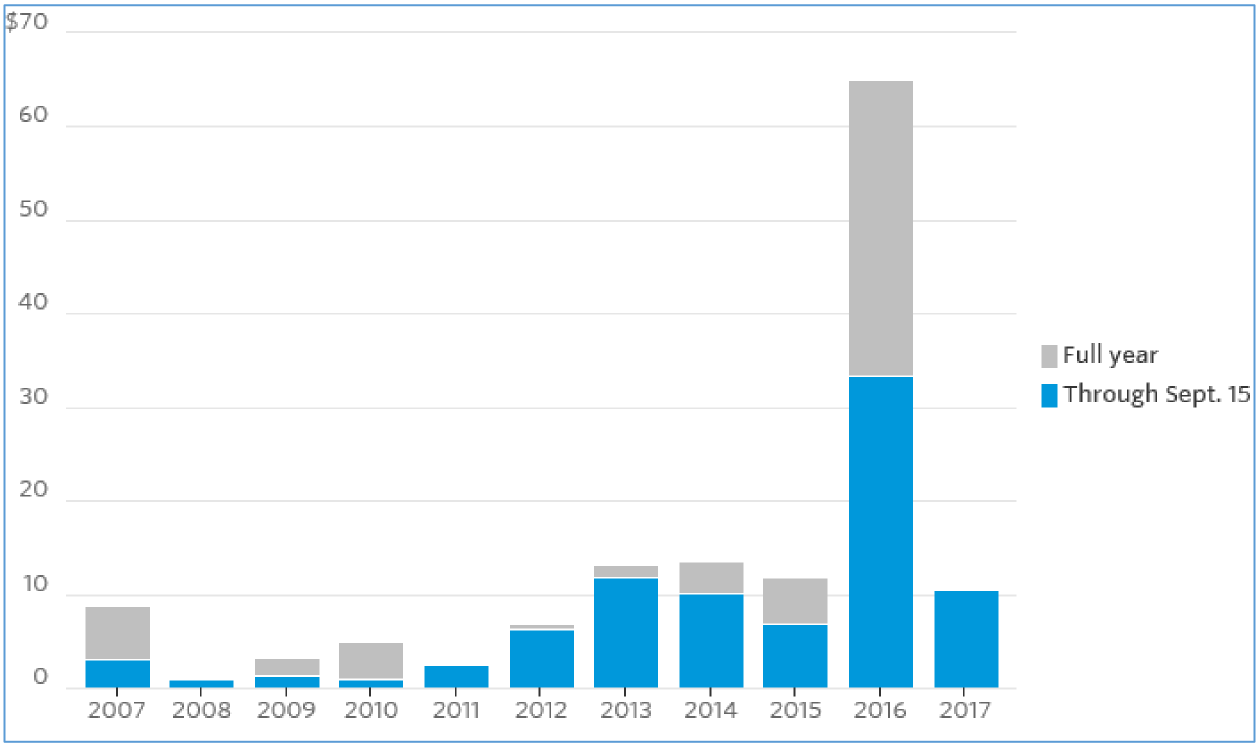
For U.S. policy makers, the reasons were straightforward: The sale could have ceded valuable intellectual property to China amid a fierce battle between the two countries to dominate the semiconductor industry.

The White House said the $1.3 billion transaction could have risked U.S. national security and, in addition to the reasons above, also cited "the importance of semiconductor supply chain integrity to the United States Government, and the use of Lattice products by the United States Government."

Mr. Trump's decision was swiftly condemned by Beijing, where a spokesman for China's Ministry of Commerce said countries shouldn't use security reviews "as a tool for protectionism."

"We hope that certain countries can look at Chinese companies' overseas acquisitions objectively and fairly, and provide fair treatment to this kind of normal commercial activity," said Gao Feng, the ministry spokesman.

Slowdown Value of announced Chinese takeovers in the U.S



Many sectors of China's economy remain largely closed to foreign investors.

The companies have said they see anti-China sentiment in the U.S. at work. Lattice's chief executive said his company and Canyon Bridge had tried to address all possible national-security issues through an agreement to give the U.S. government control over Lattice's intellectual property and technology if the tie-up were approved.

On Capitol Hill, though, the decision didn't strike lawmakers as a political one. Senate Banking Committee Chairman Mike Crapo (R., Idaho) said at a hearing about CFIUS's role that took place the day after Mr. Trump's decision that the Lattice case "sounds like it should be considered textbook CFIUS" and that the move was reassuring.

At the same time, Mr. Crapo, whose committee has oversight authority over CFIUS, indicated that the debate over CFIUS's powers is far from settled.

"We should discuss whether CFIUS is even the right agency to reform in order to address various complaints associated today with China's investment strategies," Mr. Crapo said, praising what he referred to as the U.S.'s "world-renowned" open investment policy.

His comments echo sentiments that have been expressed by some free-market congressional Republicans and private business people who remain wary of shutting out too much foreign investment.

Still, a growing bipartisan group in Congress and some former and current administration officials are arguing that strengthening the CFIUS review process is paramount to protect national security.

Senate Majority Whip John Cornyn of Texas and Rep. Robert Pittenger (R., N.C.) have both said they soon plan to introduce CFIUS overhaul bills that would ratchet up scrutiny of foreign investment in the U.S., including provisions aimed at Chinese deals in technology and other sectors.

Former White House chief strategist Steve Bannon said in a recent interview with The Wall Street Journal in Hong Kong before Mr. Trump's decision was announced that CFIUS should become larger and review more deals, with the goal of reducing foreign direct investment into the country's sensitive sectors.

In the interview, Mr. Bannon said his philosophy helped guide CFIUS while he was in the White House and that officials in the Treasury and Commerce departments, both part of CFIUS, continue to carry out the agenda he helped create on foreign-deal reviews.

Mr. Bannon, who left the White House last month, is still in contact with Mr. Trump, the Journal has reported. He was in Hong Kong to speak at a conference held by financial-services firm CLSA, a unit of Chinese state-owned brokerage Citic Securities Co.

In the interview, Mr. Bannon, who has a nationalist agenda, said CFIUS needs to be very careful about transactions involving the sale of U.S. strategic assets and deals that put proprietary technology into the hands of foreign owners. The definition of sensitive industries or technology could be broadened, he said.

He predicted that the recent wave of Chinese takeovers of U.S. firms would come to an end and said stepped-up scrutiny should go beyond deals emanating from China. The U.S. should "think through who's investing and what's the purpose of that investing," no matter which country is behind the takeover, he said. Mr. Bannon added that foreign purchases of minority stakes in U.S. companies should also be reviewed more comprehensively.

Treasury Secretary Steven Mnuchin, who is CFIUS's chairman, has also said he believes that the CFIUS process needs to be strengthened.

However, following Mr. Trump's decision to forbid the Lattice-Canyon Bridge tie-up, Mr. Mnuchin in a statement highlighted what he called the U.S.'s continuing openness toward foreign investment. "The CFIUS process focuses exclusively on identifying and addressing national security concerns," he said.

Mr. Pittenger, who led a bipartisan group of 22 House members in a letter flagging opposition to the Lattice deal, said in a statement following Mr. Trump's ruling that he wasn't against all Chinese investments but that "we must be aware of the Chinese government's strategic, systematic effort to infiltrate key American infrastructure."

CFIUS in recent months has spent more time scrutinizing Chinese deals, many of which are still awaiting clearance. At the same time, other forces such as increased Chinese capital controls also appear to be weighing on deal making. The value of announced cross-border acquisitions and investments by Chinese firms into U.S. companies is down by nearly 70% so far this year from the same period in 2016, according to Dealogic.

—Eva Dou, Natasha Khan and Steven Russolillo contributed to this article.