Trump just blocked a Chinese takeover of a sensitive U.S. company. Here’s what’s going on.

By Adam Chilton, Helen Milner and Dustin Tingley  September 15 at 7:00 AM

Two days ago, President Trump issued an order blocking the $1.3 billion sale of a Portland, Ore.-based company called Lattice Semiconductor to private equity firm Canyon Bridge Capital Partners. The stated rationale for Trump’s order was national security. Shortly after the deal was announced, Reuters reported that Canyon Bridge’s capital came from China’s State Council, the top decision-making body of the government, which has links to the Chinese military. Even though the managers of Lattice welcomed the sale and made concessions to try to make it possible, the Trump administration stopped it, saying that allowing Chinese investors to own it would threaten the United States’ national security.

Blocking the sale of Lattice is part of a broader trend. Even in cases where the national security implications of sales have been less clear, Chinese investors looking to buy U.S. companies have been facing increasing scrutiny. Over the past several years, we have been researching the role that politics plays in regulating investments between the United States and China. We find that even though the explicit justification for U.S. hostility to Chinese investments is national security, much of the real politics involves the question of whether China is willing to reciprocate U.S. market openness by opening up its own companies to U.S. investors.

The United States has a system for reviewing sensitive foreign investments

It’s unusual for the president to prohibit sales between private parties like this, but it is perfectly legal where the sale poses national security risks. An obscure multiagency committee known as the Committee on Foreign Investment in the United States (CFIUS) has legal authority to review foreign acquisitions of U.S. companies that meet certain criteria. If CFIUS determines that a proposed deal is a national security risk, the president can stop it.

Such security concerns were used to justify the president’s decision. Lattice Semiconductor, as its name suggests, builds semiconductor chips, which may have important security implications. However, U.S. politicians have sometimes been hostile to Chinese investment in less-sensitive sectors. Recent efforts by Chinese companies to buy U.S. firms in industries where the
national security risks are less clear — including high-profile attempts to buy appliance manufacturer Maytag and pork producer Smithfield Farms — have resulted in political blowback. These sales are not always explicitly blocked, but the threat that they could be often leads investors to withdraw their offers to buy U.S. companies. In other words, investments from the world’s second-largest economy are not always welcomed into the world’s largest economy.

Why is the U.S. so hostile?

In a recent paper on this question, we looked at 569 cases between 1999 and 2014 in which a Chinese company tried to purchase a U.S. company. We asked (among other things) whether the deal posed security risks, whether China prohibits U.S. investments in the same industry and whether the proposed deal led to political opposition in the United States.

As we previously noted, for a deal to be legally blocked, it has to pose a threat to national security. And indeed, national security risks helped explain whether a proposed deal generated backlash — deals in industries where there are high national security risks were 6 percent more likely to generate political opposition.

However, Chinese willingness or unwillingness to reciprocate U.S. openness played a key role. Deals where U.S. firms faced obstacles to investing in the same industries in China were up to 20 percent more likely to generate political opposition.

Since this kind of analysis can’t really tell us about the relative importance of security and reciprocity, as well as other important factors, in a separate paper we ran surveys of people in the United States and China. We asked people taking the survey to describe their level of support for the acquisitions of domestic companies by foreign firms while varying facts about the transactions.

Here, the biggest factor was the attitude of the foreign firm’s home country toward foreign investments, trumping both traditional security and economics questions. Both Chinese and Americans felt that a deal shouldn’t be approved when they thought companies from their country trying to invest abroad wouldn’t be given the same deal.

Investors from China do face hostility when trying to buy U.S. companies. However, this is unsurprising given the restrictions faced by U.S. companies trying to do business in China. While we can’t say that the decision to block the sale of Lattice was motivated by concerns over reciprocity rather than real security concerns, we can say that such concerns are a big reason why investments from China consistently provoke political resistance.

The two countries have spent years negotiating a Bilateral Investment Treaty that would have helped to remove some of the barriers that U.S. investors face in China. Right now it appears that the negotiations are on the back burner. This means that unless something changes, we can expect that more deals like Lattice Semiconductor will be blocked by the Trump administration.

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**dr. phibes** 32 minutes ago

For once I agree with what the government is doing. This has been too one sided with China and Russia.

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**FreakyMF** 38 minutes ago

I guess I'm confused - why would this even be a question? US firms, as touched on in this article, are almost never allowed to own Chinese firms. The Chinese companies, which we all know are tied in some fashion to the government, are just allowed to buy up US firms, including technology ones, without us questioning them? This isn't "investment" as we think of it in general terms - this is pretty clearly a strategic purchase by, in essence, the