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DECEPTIVE CHINESE STRATEGIES THAT CHALLENGE US ECONOMIC STATECRAFT

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The US Congress is beginning to slowly understand the complex role of Chinese enterprise in America's transition to renewable energy.

Late last month, Republican Rep. Mike Gallagher of Wisconsin, chairman of the House Select Committee on Strategic Competition between the United States and the Chinese Communist Party, revived the issue of Chinese battery maker Contemporary Amperex Technology's (CATL) partnership with Ford to build a battery plant in Michigan. The committee raised the issue back in summer, but it had not gained traction in the mainstream media until now.

Save for the House committee, Washington has been slow to address the challenge of the cunning methods used by Chinese businesses to blunt the US' tools of economic statecraft, such as sanctions, trade tariffs and bans on entering or remaining in the US market. While the battery maker has a partnership with an American automaker, Chinese companies have adopted even more deceitful ways to circumvent trade tariffs and dodge investment restrictions, among other measures.

A time-tested strategy for evading trade tariffs and bans is using third countries to assemble, manufacture and export products. China had pioneered this concept so much so that, when it came down to explaining the reasons for India's last-minute withdrawal from the Regional Comprehensive Economic Partnership trade agreement in 2019, the rules of origin provision was cited as one of them. New Delhi feared the dumping of goods via third countries in Southeast Asia—as well as the ballooning of its trade deficit with the Association of Southeast Asian Nations and the indirect boosting and supporting of Chinese enterprises.

Fast-forward to early 2023. When China hawks in Washington were celebrating Mexico replacing the Asian giant as America's largest trading partner, they missed the forest for the trees. Mexico was not only importing more from China in recent years to meet the increasing demand for imports in the US; it was also hosting several Chinese manufacturing enterprises. The United States-Mexico-Canada Agreement that covers the region is touted as one that has the highest standards for rules of origin among trade deals.

However, even with regional value content requirements for passenger vehicles as high as 40%, as well as 45% for light trucks and 70% for steel and aluminum, Chinese companies have found a way to earn the "Made in Mexico" tag to essentially capitalize on the duty-free bloc. This clearly undercuts Washington's nearshoring strategy of diversifying supply chains to places closer to the US.

Over the last few years, while Washington embraced industrial policies such as the Inflation Reduction Act and the CHIPS and Science Act to revive manufacturing in strategic sectors, it adopted nearshoring and friendshoring strategies to address resource deficits in the US by making countries with existing free-trade agreements into sources eligible for benefits offered under the industrial policies. Corporations that initially felt blindsided by such policies could take a breather through the option of sourcing goods from nations with FTAs for commercial or other reasons.

Even here, China is undercutting America's onshoring, nearshoring and friendshoring measures. Furthermore, it has used certain nations as havens to hedge against tariffs and even sanctions. For example, while estimates vary, in 2022, it appears that between 400 and 500 companies from mainland China found domicile in Singapore. The practice has become so pervasive that a private equity executive called it "Singapore-Washing."

A case in point is TikTok. In a heated exchange with members of Congress, the CEO of TikTok, Shou Zi Chew, corrected members by saying he was Singaporean and not Chinese. The snippet of his exchange went viral on social media (including TikTok), causing progressive lawmakers and their electorate to become more critical of the China hawks in Congress, including insinuations of bias toward the CEO.

But is TikTok truly a Singaporean company? TikTok is as Singaporean as Starbucks or Google are Irish. Conglomerates choose to register their companies offshore for various reasons, including tax benefits, as is the case for companies of American origin registered in Ireland.

In the case of TikTok, EV maker Nio, IT services provider Cue or fast fashion powerhouse Shein Retail, which is under investigation by the US for the alleged use of forced labor in Xinjiang, the Singapore registration has provided a regulatory shield of sorts. While registering in Singapore is not a new phenomenon, the number of registrations from the mainland has significantly increased due to restrictions in China and the need to prevent regulatory blowback from the US.

The Biden administration received flak for its decision to veto a congressional resolution that would have reinstated tariffs on solar panels from Southeast Asia. Over the last few years, American manufacturers have claimed that China moved operations to four Southeast Asian countries—Thailand, Vietnam, Malaysia, and Cambodia—to skirt US anti-dumping rules.

For regulations, Chinese enterprises use Singapore; for trade benefits, they use Mexico or Vietnam. For example, recent reporting on the Shenzhen-listed CNGR Advanced Material—the world's largest supplier of nickel-based cathodes—show, it partnered with Morocco-based Al Mada, owned by the Moroccan Royal Family, to gain access to both the EU and US markets, capitalizing on their FTAs. The House Committee led by Rep. Gallagher has rightly taken up the partnership between Ford and CATL. There are many other such partnerships on US soil such as battery firm Gotion's plans to set up a plant in Illinois. As Biden stands in solidarity with the Union of Auto Workers, he should not lose sight of his promise of a foreign policy for the middle class—that is set to gain or lose the most with lapses in investment screening.

About a month earlier, Biden unveiled his plans for outbound investment screening. Those measures fall short, however. As highlighted here, the policies in place to effectively screen Chinese investments on US shores have not been adequate.

Given this deficiency, an outbound investment screening mechanism without drawing on the lessons from the inbound screening deficiencies is unlikely to deliver the intended results. As a report on friendshoring battery supply chains by the Hinrich Foundation highlighted, American industrial policies cannot just dangle carrots in front of industries without the stick, or they make the whole purpose of the policy moot. Chinese companies have become master hedgers of Washington's regulatory oversight using American companies and allied nations to their advantage.

Washington must be more vigilant with shape-shifting Chinese enterprises, particularly as it embarks on onshoring, nearshoring and friendshoring measures for supply chain diversification. If not, American industrial policies will be supporting Chinese enterprise one way or another and America's tools of economic statecraft such as sanctions and bans will be blunted.

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