THE BIG PICTURE

# China and the U.S. Entity List

Foreign entities are often placed on the U.S. Entity List. But many of their subsidiaries and affiliates are not. Is that a problem?

BY DAVID BARBOZA — NOVEMBER 1, 2020


People visit the stand of China Electronic Technology Group Corporation (CETC) during PT Expo China (PTEXPO) at China National Convention Center on October 14, 2020 in Beijing, China.
*Credit: VCG/VCG via Getty Images*

During the past few years, the U.S. government has placed scores of Chinese companies and their subsidiaries on what is known as the U.S. Entity List, which makes it harder for American firms to export certain goods to them.[1] This economic punishment has been used against the Chinese telecom giant Huawei, as well as artificial intelligence and surveillance camera firms like SenseTime and HikVision. But how effective is the Entity List?[2]

This week, we look at what it's like to target a foreign entity, and why analysts say that the complex ownership structures of many large Chinese firms makes it difficult to enforce sanctions against them.

## The U.S. Sanctions Mechanism

First, some historical context. In 1997, the federal government created the U.S. Entity List, a powerful tool that the authorities believed could be employed to sanction foreign individuals, organizations or companies involved in developing weapons of mass destruction. The list — which is under the jurisdiction of the U.S. Commerce Department — was later expanded in order to penalize foreign entities linked to national security threats, terrorism, and even human rights abuses. It works by restricting the export of certain types of items with American-made components to entities on the List without prior federal approval. (It does not, though, restrict the sale of any good to a firm, only those that have dual use — for military and civilian purposes — without an export license from the US government.)

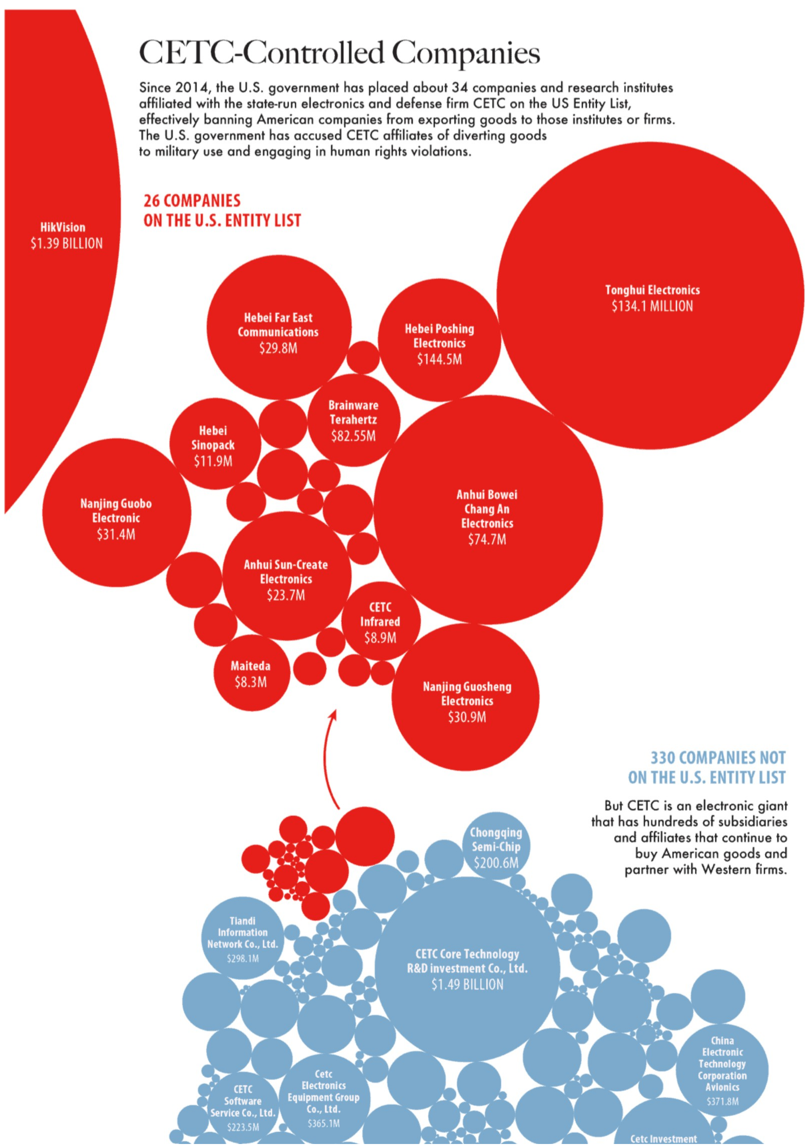
But there are a host of challenges that arise with placing foreign firms on the list. Does the parent company go on the list, or just the subsidiaries or affiliates that have engaged in illegal or threatening behavior? And if a firm has both consumer businesses and military operations, should they be considered one entity and placed on the List as such?

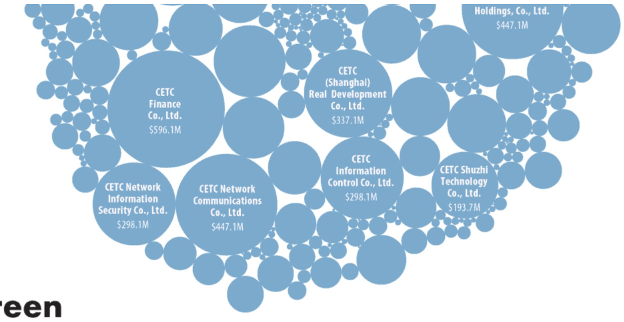
## The CETC Group Case Study

Take the China Electronics Technology Corporation Group, for example. It's a huge, state-run company that has longstanding ties to the Chinese military, but it's also a sprawling electronics and technology firm. The Beijing-based firm is massive, with $28 billion in annual revenue, 150,000 employees and stakes in eight publicly traded companies, including the surveillance firm HikVision (which is itself on the U.S. Entity List[3]). Affiliates of the company have even formed joint ventures in China with Cisco Systems, Microsoft and Rockwell Collins, a division of the American defense contractor Raytheon.

But in 2014, citing national security concerns and the possibility that American-made goods could be diverted to the Chinese military, the U.S. government began placing CETC affiliates on the U.S. Entity List.[4] Today, there are at least 34 CETC research institutes, companies and subsidiaries on the U.S. Entity List.

Using WireScreen[5], a data platform affiliated with this publication, we identified the CETC companies currently on the U.S. Entity List (in red) and then found more than 330 CETC affiliates that are not on the U.S. Entity List (in blue); which means American firms are able to export goods to them legally — even though the parent company is affiliated with the Chinese military.[6]






WireScreen

*Data: WireScreen, Design: Hiram Henriquez*

---

The U.S. appears to have focused on sanctioning the CETC units directly linked to the military, but not the entire firm. Likewise with the giant aerospace and defense firm AVIC. The U.S. has targeted divisions that produce military jets but not its commercial jet arm, which has a joint venture with GE. That creates a loophole that allows firms to use their civil or consumer arms to raise capital and source supplies and equipment that could be diverted to their military or defense arms.

The challenge is complicated in China because both private and state-owned firms often form networks with hundreds, and even thousands, of affiliated companies and subsidiaries, which could allow them to skirt sanctions.

For instance, after the U.S. government put some of CETC's research institutes on the Entity List, apparently because they develop systems for the military, some of those institutes spun off their own corporations to do business — corporations that can apparently acquire American-made goods since they are not on the U.S. Entity List.[7]

William A. Reinsch, a former Commerce Department official now at the Center for Strategic and International Studies in Washington, says it's a challenge the federal government is trying to deal with. "It's a cat and mouse game," he says. "If the U.S. government doesn't stay on top of things, the Chinese company can go out of business, rename itself and then reopen across the street."

To be clear, *The Wire* has found no evidence that CETC or any of its affiliates have tried to skirt the sanctions. But the data shows that the company and its affiliates may not need to; they could simply import through a related firm. In other words, analysts say, state-run conglomerates are built in a way that makes sanctioning them very, very difficult.

David Barboza is the co-founder and a staff writer at *The Wire*. Previously, he was a longtime business reporter and foreign correspondent at *The New York Times*. @DavidBarboza2

---

COVER STORY

## Pole Position

BY EYCK FREYMANN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

THE BIG PICTURE


### Transsion's Triumph

BY GARRETT O'BRIEN

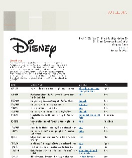
A look at Transsion's monumental growth, unique marketing strategies and future growth potential.

Q & A

### Jörg Wuttke on China's Self-Destruction

BY ANDREW PEAPLE

The EU Chamber of Commerce in China president talks about China's self-inflicted problems; how he gets away with being so outspoken; and why he believes in China's comeback gene.



Visit News Products Store

## News Products

Our best open-source research on Chinese companies, as well as industry guides to 100 of the most influential people in a China-focused industry.

## The Wire China Archives

Read More Articles >