

## Trade war: will US espionage fears scupper Chinese rail group?

State-owned CRRC faces claims that its rail cars could be used for spying

*James Politi in Springfield and Tom Mitchell in Beijing*

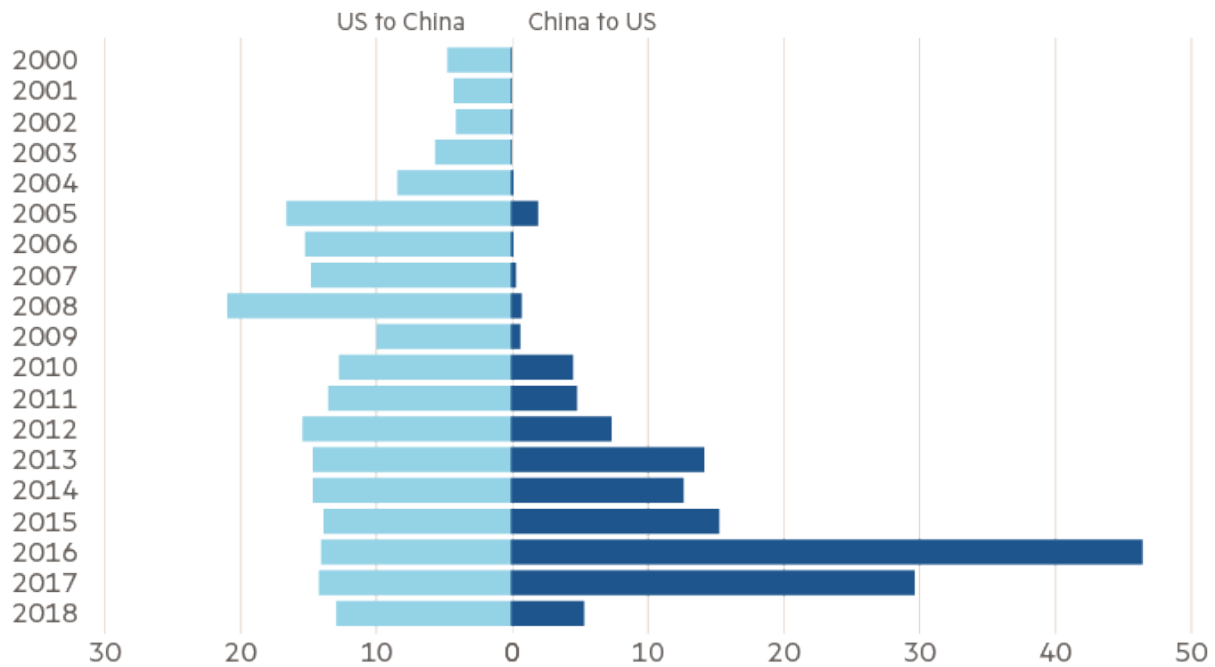


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In its 19th century heyday, the city of Springfield in Massachusetts produced the first industrial assembly line, the first gasoline-powered automobile and the first sleeping rail car. Wason, one of its leading companies, made passenger coaches and streetcars for clients across the US and countries as far afield as Egypt. While Wason went out of business in the 1930s, Springfield prospered well into the 20th century before deindustrialisation forced many of its factories to close. So when a Chinese company announced in 2014 that it was investing \$95m in a new plant to build rail cars — on a site that once housed a vast Westinghouse factory that closed in the 1970s — many in the region were excited about the prospects. For the past four years, around 200 workers have been employed in a gleaming new factory producing cars for the Boston subway system, with work on similar contracts for Philadelphia and Los Angeles to follow. Yet rather than being celebrated as a symbol of potential regeneration, the plant has found itself sucked into the escalating trade conflict between the US and China. For its critics, the issue is symbolised by the giant Chinese flag flying alongside the stars and stripes at the main gates — a nod to its ownership by CRRC, a Chinese state-owned enterprise that is the biggest manufacturer of rolling stock in the world.

## The rise and fall of Chinese investment in the US

Foreign direct Investment, \$bn



Source: US-China Investment Project  
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Leading US politicians from both parties have accused the company of using its links with the Chinese state to compete unfairly for contracts and of being a vehicle for possible Chinese espionage. Some have called for CRRC's exclusion from upcoming tenders for the Washington and New York subway systems. Such criticisms have been greeted with bemusement in Springfield. John Scavotto Jr, the leader of the local chapter of the sheet metal workers union, says the CRRC facility is a "godsend" — with high-paying jobs including benefits — but is worried about its future and is angry at the hostility coming from US President Donald Trump and Washington. "This guy wants to have his war with China, let him have it, but leave us alone in Springfield," he says, speaking of the US president. "I beg them to come down here from Washington and see for themselves what they're trying to hurt, what they're trying to quash, what they're trying to make disappear."



The CRRC plant in Springfield produces cars for railway and underground systems in major US cities © Jake Belcher/FT



In 2014, CRRC won a contract to supply Boston's subway system with more than 280 cars © Jake Belcher/FT

**The furore over CRRC** and its Massachusetts plant is emblematic of the increasingly febrile climate surrounding many Chinese investments in the US, at a time when the world's two biggest economies are engaging in a process of decoupling that is driven by broader commercial and strategic tensions. Chinese investment in the US has always been fairly controversial, even after the country's accession to the World Trade Organization in 2001.

Oil company Cnooc's proposed 2005 takeover of Unocal was scuppered in large part because of political opposition, and others have met similar fates since then. Chinese foreign direct investment in the US did, however, increase over the years, hitting a peak of \$46bn in 2016. Since Mr Trump came into office, it has dropped sharply, to \$29bn in 2017 and just \$5bn in 2018, according to Rhodium Group. A key driver of the decline emanated from Beijing, rather than Washington, following capital controls that reined in foreign acquisitions by many private Chinese entities. But perceived US hostility has been another major spur, especially over the past year. Chinese acquisitions of American companies in sensitive technological sectors are now routinely knocked back on national security grounds by the Committee on Foreign Investment in the US. Cfius also recently forced a Beijing-based company to sell Grindr, the gay dating app, over fears of potential misuse of its trove of personal data. CRRC's initial Springfield investment, agreed after it won a contract in 2014 to supply Boston's subway system with more than 280 cars, represents a rare instance of a Chinese greenfield manufacturing investment. Such projects have trickled into the US at a rate of about \$1bn a year since 2011 according to Rhodium. The Springfield plant was precisely the type of investment that both Washington and Beijing welcomed at the time — a rare infusion of Chinese manufacturing dollars and knowhow in an industrial sector that no longer exists in the US. Kevin Kennedy, the official in charge of Springfield's economic development, calls the CRRC investment "a return to our manufacturing roots".



John Scavotto Jr, leader of the Springfield chapter of the sheet metal workers union, says the CRRC facility is a 'godsend' © Jake Belcher/FT



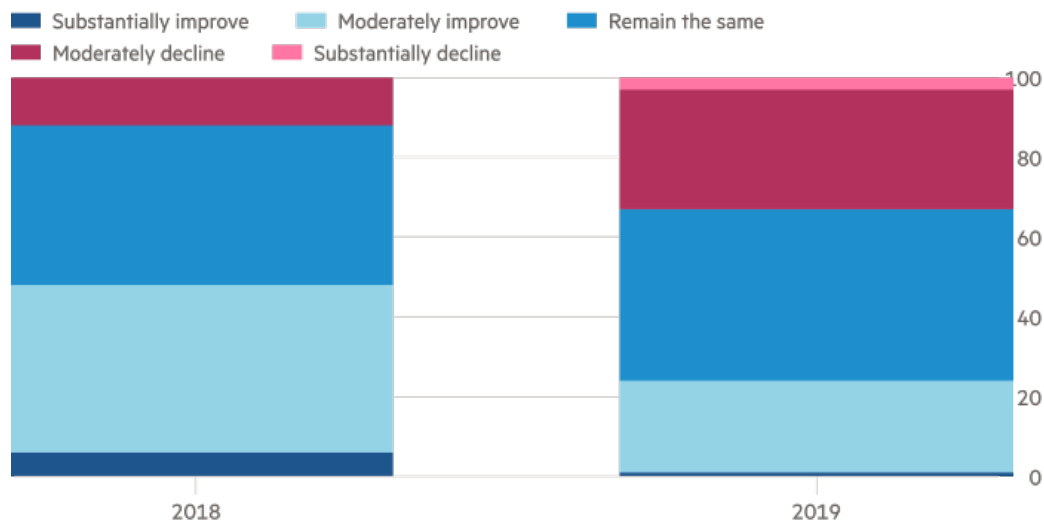


### **CRRC has created upwards of 200 jobs in Massachusetts**

After its breakthrough tender win in Boston over Canadian, Japanese and South Korean rivals in 2014, CRRC went on to secure subway car contracts in Chicago, Philadelphia and Los Angeles between March 2016 and March 2017. CRRC won the Boston tender with a bid of \$557m, substantially below those of Hyundai Rotem (\$721m), Kawasaki (\$905m) and Bombardier (\$1bn). Those four contract wins, secured during the final years of Barack Obama's presidency and the first few months of Mr Trump's, occurred in a markedly different phase in Sino-US relations. Since Mr Trump signalled his intention in late 2017 to take a tougher line on Chinese trade and investment issues than his predecessors had, CRRC has lost at least three bids for railcar contracts, including two in New York and one in Atlanta. China-made components that CRRC assembles in Springfield were targeted in Mr Trump's first round of trade war tariffs, imposed in July 2018 on Chinese industrial exports worth about \$50bn a year. When CRRC applied for an exemption from tariffs on China earlier this year, the request was rejected by the office of the US trade representative — despite dozens of letters of support for its relief petition from politicians, union officials, chambers of commerce and vocational schools in Massachusetts and California. "CRRC's first North American facility and its success is critical to our city and region's economy, bringing back manufacturing and skilled labour," Springfield mayor Domenic Sarno wrote. "I am surprised by the knee-jerk reactions in the world of trade that have happened in this country under this president," adds Mr Kennedy. "The business world wants you to be reliable and predictable and that's how we, the mayor and I, try to do our business in Springfield . . . CRRC kept its word and created upwards of 200 jobs here in Massachusetts. Most of those are in Springfield and they're looking at expansion. We have no complaints at all about the relationship."

## Chinese investors are more pessimistic about the US

Investors think the US investment and business environment in the next two years will ... (%)



Source: China General Chamber of Commerce - US  
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**Outside of Massachusetts**, the Chinese company has another US affiliate in Chicago, CRRC Sifang America, which is building rail cars for the subway system there and possibly the Washington metro, should it win that contract. But as the company's US presence has expanded, so has the political opposition. CRRC's most vocal critics on Capitol Hill include Chuck Schumer, the leader of the Democrats in the Senate, and Marco Rubio, the Republican senator from Florida. "This is part of China's long-term strategy to undermine US industry and dominate the advanced technologies of the 21st century," Mr Rubio wrote in the New York Post at the end of May. A few days earlier, Mr Schumer had called for the US commerce department to probe whether CRRC posed a national security risk "given what we know about how cyberwarfare works".



**Kevin Kennedy, head of economic development in Springfield, says CRRC's investment has allowed 'a return to our manufacturing roots' © Jake Belcher/FT**



**CRRC invested \$95m in its Springfield plant © Jake Belcher/FT**

A small lobbying group called the Rail Security Alliance (RSA), backed by some of America's top freight rail companies, has been beating the drum hard about the dangers allegedly posed by CRRC. Its arguments range from suspicion that CRRC will eventually move on from passenger rail cars and dominate the US freight rail sector to worries about the state support it enjoys. "If they wanted to play by the same rules as France, Germany, Canada, Korea and Japan play by, fine," RSA's Erik Olson says. "But those aren't the rules they play by. From an economic standpoint they are driven to produce jobs in China for the Chinese." The tariffs imposed on CRRC's China-made components last July are having an impact. "We basically lost the Atlanta contract [in March] because of price, which is unusual," says Russell Askalof, a former quality control manager at CRRC in Springfield. "Part of the reason we won so many of the other contracts was that CRRC [Massachusetts] was able to parlay the cheap labour in China that it uses to build the frame of the cars into a substantial discount for the total car." "Morale is pretty low right now," adds Mr Askalof, who left the company last month. "People are very concerned about their jobs." As for the concerns about hacked subway cars, the RSA points to the advanced technology that is contained in modern rail cars, with sensors and systems used to track and regulate everything from temperature to location. The allegation levelled against CRRC that it could be a vehicle for espionage strikes a particular nerve as the company enters the Washington Metro race. "You have members of Congress, the intelligence community, Department of Defense officials, staff, whoever [riding the DC Metro]," says Mr Olson. "We don't think CRRC will do anything nefarious and start a war or anything, but could they track people, could they use this as an intelligence gathering tool? One hundred per cent."





**Ollie Hall, Springfield resident: 'If they make [trains] for this country, to help build this country, to make it a better country, who could it harm?' © Jake Belcher/FT**



**Chinese acquisitions of US companies in sensitive technological sectors are now routinely rebuffed © Jake Belcher/FT**



Thilo Hanemann, a partner at Rhodium, says that protectionism has driven some of the backlash against Chinese companies. “There is a long list of Chinese greenfield projects in the US that [have been] attacked by special interest groups trying to protect their market and the current climate provides fertile ground for those campaigns,” he says.

“It seems everyone is jumping on the red-scare bandwagon now.” Jia Bo, vice-president of CRRC’s Massachusetts unit, rejects the criticisms from the RSA and lawmakers. The rail cars built in Springfield, he says, abide by all the safety standards and procurement rules requiring that the majority of components are made in the US. While the shells of the cars are indeed imported from a CRRC subsidiary in north-east China — and therefore subject to Mr Trump’s punitive tariffs — the high-value networking and monitoring systems are sourced from US, Japanese and German suppliers also used by CRRC rivals. “I feel they are using this as an excuse to exclude us from the competition,” Mr Jia says. He defends CRRC even more forcefully over the spying claims: safety cameras are installed to ensure the rail cars run securely and any data goes to the relevant transit authorities. “What they are saying, espionage, is a kind of speculation or an imaginary allegation,” he says. As for whether CRRC’s investment is now in jeopardy, he acknowledges that the company does “face a certain level of risk” and thinks the US and China both need “better communication”, but he does not believe the tension would be permanent. “The issues will be solved,” he says.



**Jia Bo, vice-president of CRRC's Massachusetts unit: 'What they are saying, espionage, is a kind of speculation or an imaginary allegation' © Jake Belcher/FT**



**CRRC management on the factory floor © Jake Belcher/FT**

**In Washington, CRRC does have one powerful defender** in Richard Neal, the Democratic chairman of the House Ways and Means committee, which oversees taxes and trade. Mr Neal represents Springfield and its surrounding region and has been pushing back against some of the criticism. “There’s no question that the Chinese have a long history of actions that have threatened American jobs, technology and national security,” Mr Neal said last month. “However, it’s in our best interest, whenever possible, to strike the proper balance between protecting our national security and welcoming companies that create jobs and invest in our community. I believe we can do both.” Kathy Brown, head of a neighbourhood council in Springfield, says she has not seen any evidence of opposition to, or scepticism about, CRRC in her meetings with residents — or even on local social media networks. “It’s pretty exciting to watch one of those cars roll out and make their way down Page Boulevard [the Springfield street where CRRC is located],” she says.

Ollie Hall, a Springfield resident and military veteran, agrees that CRRC should not be targeted simply because it is a Chinese company. “We buy a lot of products from [Chinese companies], now they want to make trains,” Mr Hall says. “If they make them for this country, to help build this country, to make it a better country, who could it harm?” Giovanni De Caro, a 43-year old electrical assembly and repair worker at CRRC’s plant who grew up in Springfield, says the investment “brought this part of the city back to life”. He is confident that the company can continue to win contracts in America. “I think other cities throughout the US, are going to say ‘OK, let’s see what [CRRC] can do for us’,” he says. “They’ll realise that [what] other people are saying about us isn’t true.” Mr De Caro has little sympathy for Mr Trump’s trade war with China. “I think it’s going to backfire. It will hurt us in the long run, and not just here at our company. All goods will get more expensive, so it’s going to be harder on working class families.”