

The New York Times

September 14, 2019

Fearing ‘Spy Trains,’ Congress May Ban a Chinese Maker of Subway Cars

By: Ana Swanson

CHICAGO — America’s next fight with China is unfolding at a glistening new factory in Chicago, which stands empty except for the shells of two subway cars and space for future business that is unlikely to come.

A Chinese state-owned company called CRRC Corporation, the world’s largest train maker, completed the \$100 million facility this year in the hopes of winning contracts to build subway cars and other passenger trains for American cities like Chicago and Washington.

But growing fears about China’s economic ambitions and its potential to track and spy on Americans are about to quash those plans. Congress is soon expected to approve legislation that would effectively bar the company from competing for new contracts in the United States, citing national security and economic concerns. The White House has expressed its support for the effort.

Washington’s attempt to block a Chinese company from selling train cars inside America is the latest escalation in a trade war that has quickly expanded from a spat over tariffs and intellectual property to a broader fight over economic and national security.



Taylor Drzich, right, who helps assemble vehicles, during a training session at the Chicago plant. The company hopes to win contracts to build subway cars and other passenger trains for American cities. Credit Alyssa Schukar for The New York Times

President Trump and lawmakers from both parties are increasingly anxious about the economic and technological ambitions of China, which has built cutting-edge global industries, including those that produce advanced surveillance technology. Those fears have prompted Washington to take an expansive view of potential risks, moving beyond simply trying to curtail Chinese imports.

In addition to slapping tariffs on \$360 billion worth of Chinese products, the administration has banned Chinese companies like Huawei, the telecom giant, from buying sensitive American technology. It is moving to curb the ability of firms to export technology like artificial intelligence and quantum computing from the United States to China. And Congress has given the administration expansive power to block Chinese investment on national security grounds.

Now lawmakers have added a provision to a military spending bill that would prevent the use of federal grants to buy subway trains from state-owned or state-controlled companies, a measure that would effectively block CRRC's business.



Hanming Qin, center, overseeing an installation with Javinn Brown, left, and Hector Nava Jr. Credit Alyssa Schukar for The New York Times

The bill has gained bipartisan support from lawmakers who say companies like CRRC pose a threat to the United States. Part of the concern is economic: Flush with cash from its rapid growth, China has pumped money into building globally competitive businesses, often creating overcapacity in markets like steel, solar panels and trains.

That has lowered prices for consumers — including American taxpayers who pay for subway cars. While a subway car has not been manufactured solely by an American company in decades, CRRC's low prices

have raised concerns among American freight train companies that the company could ultimately move into — and demolish — their business.

CRRC has consistently underbid its competitors, winning over urban transit agencies that are saddled with aging infrastructure and tight budgets. For the Chicago L, CRRC's Chicago subsidiary bid \$1.55 million per car, compared with a bid of \$1.82 million per car by Bombardier, the Canadian manufacturer. And CRRC also proposed to build the Chicago facility and create 170 new jobs.

Legislators argue that Chinese state-owned companies are not pursuing profit, but the policy aims of the Chinese government to dominate key global industries like electric cars, robotics and rail.

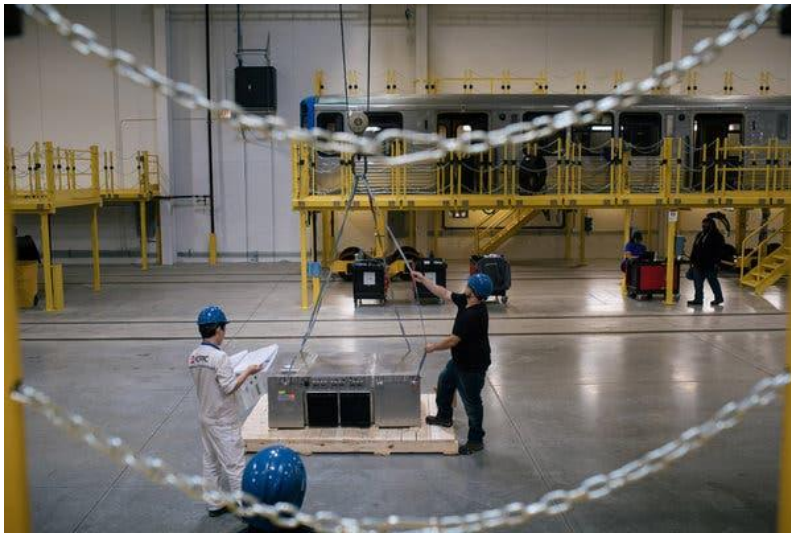
“When you can subsidize, when you can wholly own an enterprise like China does, you can create a wholly unlevel playing field,” said Senator Tammy Baldwin, a Wisconsin Democrat who is a co-sponsor of the legislation. “We’re used to that unlevel playing field existing between the U.S. and

China, but now it's happening in our own backyard.”

Another more nefarious worry is also at play. Lawmakers — along with CRRC's competitors — say they are concerned that subway cars made by a Chinese company might make it easier for Beijing to spy on Americans and could pose a sabotage threat to American infrastructure, though CRRC says it surrenders control of all technology in the cars to its buyers. Nonetheless, critics speculate that the Chinese firm could incorporate technology into the cars that would allow CRRC — and the Chinese government — to track the faces, movement, conversations or phone calls of passengers through the train's cameras or Wi-Fi.

Scott Paul, the president of the Alliance for American Manufacturing, which represents manufacturers and the United Steelworkers, said the risks of giving a Chinese company the ability to monitor or control American infrastructure could not be understated given recent laws requiring Chinese companies to turn over data to Beijing upon request.

“I just think it would be irresponsible to assume the Chinese government to which this firm must answer would be a reliable security partner, given its well documented track record,” Mr. Paul said.



Moving an auxiliary power supply at the Chicago plant. Washington's attempt to block the company from selling train cars inside America is the latest

Whether those fears are justified remains uncertain. Proponents of the bill have not made clear how subway cars manufactured by a Chinese company would pose a greater espionage threat than everything else that China makes and sells in the United States, including laptops, phones and home appliances.

Dave Smolensky, a spokesman for CRRC, said the company was being unfairly targeted by companies that wanted to legislate a competitor out of business under the guise of national security. He said the firm was a victim to “an aggressive multimillion-dollar media disinformation campaign,” funded mostly by domestic freight train companies, intended to play on popular fears about China's rise.

Employees at the Chicago factory also dismissed the concerns, saying they had not seen any evidence that they were working to construct “spy trains.”

“I haven't seen any secret wires yet,” said Perry Nobles, an electrician for CRRC who was rigging wires in the interior of the trains. “With the world full of cellphones and computers, I'd think there's an easier way to get information.”

Rising fears of China's ambitions in Washington have prompted officials to adopt an unsparing view, with policymakers and national security officials warning domestic and foreign governments not to trust Chinese equipment.



American officials have waged a global offensive against Huawei, telling other countries that allowing a Chinese company to build the world's next generation of wireless networks would be akin to handing national secrets to a foreign agent.

Like CRRC, the fear surrounding Huawei is largely based on concerns about technological dominance by China's authoritarian government. No one has yet disclosed finding a backdoor in Huawei's products that would allow it to snoop — but officials say by the time one is discovered, it may be too late.

Train chairs awaiting an assembled car. The trade war has quickly expanded from a spat over tariffs and intellectual property to a broader fight over economic and national security. Credit Alyssa Schukar for The New York Times

“The Chinese are working to put their systems in networks

all across the world so they can steal your information and my information,” Secretary of State Mike Pompeo said in an interview in May. “This administration is prepared to take this on.”

As Senator John Cornyn, Republican of Texas, introduced the provision in March, he said, “China poses a clear and present danger to our national security and has already infiltrated our rail and bus manufacturing industries.”

Representative Kevin McCarthy, a Republican whose California district is home to a Chinese bus maker, BYD, had opposed a version of the provision that would apply to buses as well as trains. House lawmakers dropped the bus provision, but the Senate bill would apply to both. Congress will take the issue up again in the coming weeks as part of the annual defense bill.

The legislation would not affect the thousands of American subway cars that CRRC previously won contracts to build, including an 846-car order for the Chicago L. But it would block the company from future contracts, such as those under consideration by the Chicago Metra and the Washington Metro.

The Chicago facility is the company's second in the United States. A factory in Massachusetts that employs more than 150 people is already building trains for Boston, Los Angeles and Philadelphia, prompting concerns that the company plans to expand rapidly in the United States as it has in other foreign markets.

Like many Chinese state enterprises, CRRC is guided by Beijing's Made in China 2025 plan, which lays out an agenda to dominate key industries.

In its 2018 annual report, Liu Hualong, the company's chairman and party secretary, pledged to pursue the dual goals of "Party construction as well as developing into a world-leading company with global competitiveness."



A training session at the Chicago plant. A provision in a military spending bill would prevent the use of federal grants to buy subway trains from state-owned or state-controlled companies. Credit Alyssa Schukar for The New York Times

"We conscientiously followed the important instructions of General Secretary Xi Jinping," the report said, referring to the Chinese president and Communist Party leader.

The last American firm to make passenger rail cars, the Pullman Company, produced its final car in 1981. Since then, major American cities have bought subway cars from Bombardier and Japanese and South Korean manufacturers like Kawasaki, Hyundai and Hitachi.

But American manufacturers of freight rail cars, including the Greenbrier Companies and TrinityRail, which is based in Mr. Cornyn's home state of Texas, say CRRC could use its footing in the

United States to steal its business. Together with unions and others, they have mounted a lobbying campaign against CRRC under an umbrella group known as the Rail Security Alliance.

The group says American taxpayer dollars should not be spent in China, where the empty rail cars are made before being shipped to the United States for further work at the company's facilities in Illinois or Massachusetts.

"We think those dollars should stay here," said Erik Olson, the vice president of the Rail Security Alliance.

CRRC sends over experts from its giant headquarters in Qingdao, China, to plants in other countries. In Chicago, the American employees call these Chinese citizens "shifu," a polite term for a skilled worker meaning "master" or "teacher."

On a sunny day in July, the company break room was split between shifus, wearing white jumpsuits and eating stuffed buns, and American workers, many of whom had joined the company in the last few months. The gleaming concrete factory floor was bare, save for a few dozen people installing wiring, air ducts and other components into the empty shells of two rail cars.

"We are a little concerned because it's our livelihood," said Mr. Nobles, who was hired in March from a previous factory job making frames for the Ford Explorer.

This summer, CRRC replaced the Chinese flag outside the factory with a Chicago flag. It has also retained two Washington lobbying firms, Squire Patton Boggs and Crossroads Strategies, to plead its case in Congress.

It may be too late. Senator Sherrod Brown, Democrat of Ohio, said he helped sponsor the bill to prevent the American transit system from being “controlled by a foreign country that is not particularly friendly to us.”

“They spell out in black and white they’re going to use foreign investment as a weapon, and we’re taking action to defend ourselves,” Mr. Brown said.

<https://www.nytimes.com/2019/09/14/business/chinese-train-national-security.html?smid=nytcore-ios-share>