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NATIONAL SECURITY NEWSLETTER

DECEMBER 2022

- TuSimple Co-Founder Ousts Board, including CFIUS Security Director, that Fired Him Last Month
- How to Win the U.S.-China Economic War
- The U.S.'s Struggle to Wean Itself from Chinese Solar Power
- Canada Orders Chinese Companies to Sell Stake in Lithium Miners

December 2022 Newsletter

National Security Investment Reviews

Issue 1: TuSimple Co-Founder Ousts Board, including CFIUS Security Director, That Fired Him Last Month

Source: https://www.wsj.com/articles/tusimple-co-founder-ousts-board-that-fired-him-last-month-11668140175

Considerations:

Co-founder and former chief executive of TuSimple Holdings Inc. Xiaodi Hou combined forces with another major shareholder to oust the self-driving trucking company's board of directors, according to a securities filing Thursday.

The extraordinary move by Mr. Hou and fellow TuSimple co-founder Mo Chen follows the board's decision on Oct. 30 to oust Mr. Hou from his roles as CEO and chairman. Board members at the time said they made the move in connection with a continuing investigation they were conducting into TuSimple's relationship with a Chinese startup called Hydron Inc.

One of the newly fired board members is a former U.S. national security official who had been installed as part of a prior agreement with CFIUS. Mr. Lu said in a statement to the Journal that the company is "actively working" to appoint a new security director to the board in accordance with its agreement with the panel. The Treasury Department, which leads CFIUS, didn't immediately respond to a request for comment.

The board firings by Messrs. Hou and Chen as major shareholders left Mr. Hou as the sole director, the filing says. Mr. Hou then appointed Messrs. Chen and Lu to the board, it says. The three then moved to replace Ersin Yumer, the interim CEO who had taken over for Mr. Hou less than two weeks ago, with Mr. Lu, according to the disclosure.

TuSimple Current Board of Directors: https://ir.tusimple.com/corporate-governance/board-of-directors

Issue 2: How to Win the U.S.-China Economic War

Source: https://foreignpolicy.com/2022/11/08/us-china-economic-war-trade-industry-innovation-production-competition-biden/?tpcc=recirc_latest062921

Considerations:
It is dawning on the United States that China is not just a military adversary but an economic one. The two countries are at war for primacy in both innovation and production capacity as much of Beijing's economic gain in advanced industries comes at Washington's loss—and vice versa. This trend is likely to continue. Chinese President Xi Jinping acknowledged as much last year when he stated, "Technological innovation has become the main battleground of the global playing field, and competition for tech dominance will grow unprecedentedly fierce."

Economic war is distinct from economic competition. Canada and the United States, for example, compete economically, but both nations understand that trade is conducted on the basis of a mutually beneficial comparative advantage. By contrast, China has launched massive frontal assaults on U.S. technology and industry capabilities. Beijing's 2006 National Medium- and Long-Term Plan for the Development of Science and Technology can be considered an initial strike in this conflict, followed in 2015 by Xi's "Made in China 2025" strategy. Both identified key technologies in which China sought to achieve self-sufficiency, and both are backed by restrictions on foreign firms' market access in key industries, widespread intellectual property theft, forced technology transfers, enormous subsidies for Chinese firms, and much more. The latter document also added numerical targets for China's market share in leading industries.

The only thing worse than not having a strategy for a war of necessity is not fighting it at all. Washington needs to commit to fighting an economic war with the overarching aim of preventing Beijing from achieving global leadership in most advanced industries—and ensuring a significantly greater rate of Chinese economic dependence on the United States (and close allies) than vice versa.

The question, then, is how to develop and operationalize such a strategy. To date, the federal government has failed to generate a real U.S. economic competitiveness strategy. Rather, to the extent that U.S. administrations produce anything on this topic, it is usually lists of accomplishments, favored policies, or future policy intentions. This is seen in the recently launched White House bioeconomy initiative, which proposed how to grow the U.S. biotech industry but is not grounded in competitive industry analysis. The program is also narrow, led by the Office of Science and Technology Policy. Any effective biotech industry strategy—especially vis-à-vis China—needs to incorporate trade policy, tax policy, regulatory policy, and much more.

One key reason there has not been a coherent U.S. industrial strategy is that there is no entity whose job it is to craft one and ensure all government agencies fall in line. Such a strategy needs to be centralized and backed by the power of the president so it can enlist a whole-of-government approach. And it needs to be funded properly: Just as defenders of the republic rightly call for increased military defense spending, the United States also needs increased economic defense spending.

Issue 3: The U.S.'s Struggle to Wean Itself From Chinese Solar Power

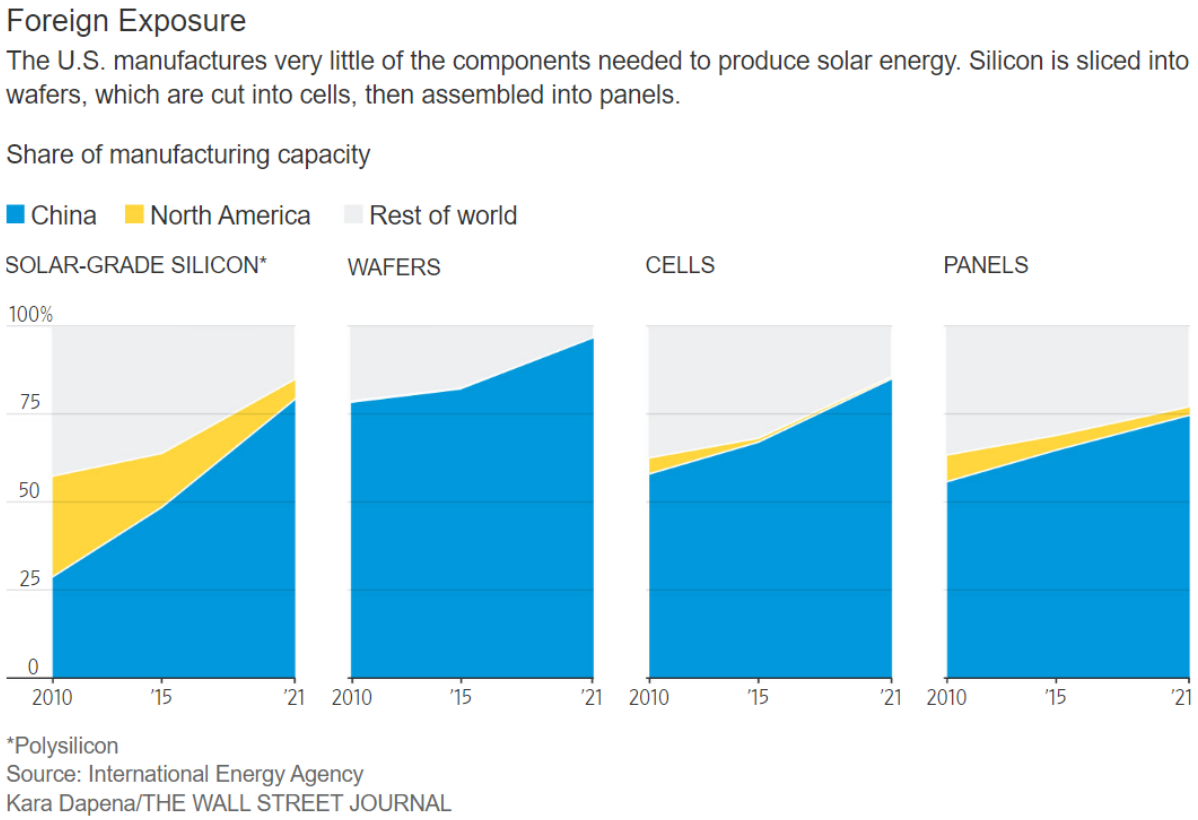
Source: https://www.wsj.com/articles/solar-energy-china-supply-chain-11668525614

Considerations:
Solar accounts for about 4% of U.S. power generation. President Biden and other advocates of green energy are trying to boost that number significantly.

To make that happen, though, the U.S. would need to build a supply chain almost from scratch.

At the moment, the U.S. has little or no manufacturing for almost any component needed to produce solar energy. China, which can produce solar components less expensively, controls more than 80% of the supply chain, dominating the manufacture of solar panels and other vital equipment. In recent years, China has spent almost 10 times as much on solar manufacturing as the U.S. and Europe combined.

In a bid to boost U.S. solar production, President Biden in August signed into law the bill dubbed the Inflation Reduction Act, which provides bonus tax credits to renewable-power projects that use American-made equipment, as well as incentives for manufacturing solar panels, wind turbine blades and other components in the U.S. The Energy Department forecasts solar will need to grow to at least 37% of the U.S. power mix by 2035 to hit the Biden administration's clean-energy targets.



Issue 4: Canada orders Chinese companies to sell stake in lithium miners

Source: https://cen.acs.org/energy/energy-storage/Canada-orders-Chinese-companies-sell/100/web/2022/11

Considerations:

The Canadian government is ordering several Chinese companies to sell their stakes in three small Canadian lithium miners, arguing that the investments pose a threat to national security.

Sinomine (Hong Kong) Rare Metals Resources must sell its shares in Power Metals; Chengze Lithium International must divest from Lithium Chile, and Zangge Mining Investment must sell its ownership in Ultra Lithium. Those mining companies are trying to set up lithium mining operations in Argentina, Canada, and Chile. Ultra Lithium and Power Metals said in statements that they are reviewing legal options.

The order to divest follows other successful investments by Chinese companies in recent years. In February of this year, Zijin Mining Group paid $719 million to acquire the Canadian lithium miner NeoLithium. The Canadian government didn't see that acquisition as a national security threat, though some members of the Canadian parliament raised concerns. When Agrium and PotashCorp merged to form the Canadian fertilizer giant Nutrien in 2018, antitrust regulators in India and China required the new company to sell its 24% stake in Chile's SQM, one of the world's biggest lithium miners and a producer of fertilizer chemicals. China's Tianqi Lithium bought those shares for about $4.1 billion. And in 2017, China's Gangfeng Lithium acquired a 20% stake in Canada's Lithium Americas, and owns nearly half of the company's mining project in Argentina. It's not clear what the divestment order means for those companies.

China has been a major player in the lithium market for years, especially when it comes to processing lithium chemicals and making batteries. Now other countries are now trying to catch up. The US government is spending billions of dollars to build up its lithium-ion battery industry through the Inflation Reduction Act and Bipartisan Infrastructure Law. Canada is also developing a critical minerals strategy, and hopes to play a larger role in battery supply chains. BASF, Umicore, and General Motors all have plans to build factories for battery materials in Canada, but mining projects have been slow to materialize.

Howard Klein, president of the lithium advisory firm RK Equity, says ordering Chinese firms to divest themselves from three small companies doesn't advance Canada's ambition to participate in the battery supply chain. He says the move might scare off future Chinese investors. That could make it harder for Canadian firms to raise money, especially since North American investors are wary of mining projects. He would rather see Canada commit to large levels of public funding for battery projects, as the US has done. "There are sticks against China," he says. "Where are the carrots to fund homegrown projects?"