DOJ Policy Shifts May Resurrect De Facto 'China Initiative'

By **Artie McConnell, Sally Yuanyuan Qin and Jennifer Solari** (June 4, 2025)

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On May 12, Matthew Galeotti, head of the U.S. Department of Justice's Criminal Division, unveiled a comprehensive white collar enforcement strategy titled "Focus, Fairness, and Efficiency in the Fight Against White-Collar Crime."[1]

The strategy reflects a significant realignment of the Criminal Division's priorities, where white collar enforcement will be designed to further policy goals related to national security, trade and market integrity where the offenses could harm U.S. businesses and economic competitiveness.

Several of these initiatives are focused on the administration's broader priorities vis-à-vis China. In many ways, the strategy marks a return to the "China Initiative," launched in 2018 under then-Attorney General Jeff Sessions during the first Trump administration, which aimed to combat economic espionage, hacking, trade secret theft and threats from China to U.S. infrastructure.

The China Initiative resulted in several successful investigations and prosecutions of Chinese nationals and former U.S. intelligence officers, but it was ultimately discontinued in February 2022 amid complaints that the initiative unfairly targeted people of Chinese heritage and chilled academic research.

While implementation of the strategy remains to be seen, for U.S. companies doing business with China — and the financial institutions that bank them — the strategy likely foretells enhanced and aggressive DOJ scrutiny in a variety of areas.

Trade and Customs Fraud, Including Tariff Evasion

Given the administration's heavy focus on tariffs, particularly involving Chinese imports, it is unsurprising that criminal enforcement in this area is listed as a key white collar priority. Undervaluing, misclassifying and transshipping goods are common evasion techniques that DOJ investigations will focus on, and there are a variety of statutes that allow for the prosecution of a company and its executives.

The strategy's focus on this area parallels the DOJ's stated intention to aggressively use the False Claims Act to impose civil penalties for tariff evasion where criminal prosecution is not appropriate or viable.

While China is not explicitly named as the target of this particular directive, it is clear that imports from China will receive heightened scrutiny.

In addition to the tariffs implemented by the administration, the statute of limitations on tariff evasion violations committed after April 2019 has been extended from five years to 10 years. Enforcement related to prior years' tariff evasion is a potentially attractive strategy for the DOJ, for both recouping lost revenue and providing a general deterrent as new tariffs go into effect.

Sanctions and Export Control Enforcement

The strategy makes several pointed references to sanctions and export control enforcement, noting that these activities are essential to neutralizing a variety of national security threats. The strategy notes that sanctions evasion and related activity are a "threat[] to the U.S. financial system," and highlights "[f]inancial institutions, shadow bankers, and other intermediaries" that work in concert with "[c]orrupt companies and foreign officials" to process financial transactions to evade sanctions.

It also notes that sanctions evasion is one of a few key areas where the use of digital assets will receive increased attention from law enforcement.

This is the latest in a governmentwide push to step up enforcement of sanctions and export control offenses. While China is not specifically mentioned, the strategy comes on the heels of several pronouncements by key senior officials involved in sanctions and export controls enforcement.

For example, at the Bureau of Industry and Security annual Update Conference on Export Controls and Policy, held in late March, U.S. Department of Commerce Secretary Howard Lutnick spoke at length about increased export control enforcement, with a focus on China. This is significant given BIS' dual regulatory and criminal enforcement role, as it frequently works with the DOJ and other law enforcement agencies in investigating and prosecuting sanctions and export control cases.

The focus on so-called shadow banking and financial institutions is also significant, since the Oct. 9, 2024, BIS best practices guidance to banks remains in effect.[2] And the attendant changes to the DOJ's whistleblower policy also prioritize reporting corporate sanctions offenses.

Fraud Involving Variable Interest Entities

The strategy singles out fraud involving variable interest entities, or VIEs, and tracks the America First Investment Policy issued by the White House in February, which emphasizes the importance of investor protection against fraudulent practices connected to certain "foreign adversary companies" listed on U.S. exchanges.[3]

The strategy goes a step further, specifically mentioning "Chinese-affiliated companies listed on U.S. exchanges that carry significant risks to the investing public."

Chinese companies use VIEs to bypass Chinese regulations that restrict foreign ownership, allowing them to gain access to capital in the U.S. Nearly all Chinese technology firms are structured as VIEs. As of March 2025, about 159 Chinese companies using a VIE structure are currently listed on the major U.S. stock exchanges.[4]

The administration believes that the risk associated with VIEs is high, as U.S. investors do not own equity in the underlying Chinese business, and instead own shares in an offshore holding company that has a contractual claim on the Chinese company's profits. VIEs have no meaningful oversight from regulators like the U.S. Securities and Exchange Commission or the Public Company Accounting Oversight Board, making it easier to overstate revenue, hide liabilities, and engage in related-party or off-the-books activity.

The strategy highlights certain types of fraud related to VIEs that the DOJ will prioritize for enforcement, including "offering fraud, 'ramp and dumps,' elder fraud, securities fraud, and other market manipulation schemes."

However, the strategy's focus on VIEs has a broader national security impetus, noting that VIEs "facilitate the flow of investor funds into strategic industries in China." As such, the focus on VIEs is part of a larger review of publicly traded Chinese companies.

Indeed, the America First Investment Policy directs the FBI to "provide a written recommendation on the risk posed to United States investors based on the auditability, corporate oversight, and evidence of criminal or civil fraudulent behavior for all foreign adversary companies currently listed on domestic exchanges."

Money Laundering Facilitating Narcotics Trafficking

Another white collar priority is complex money laundering that enables the manufacturing of illegal drugs, specifically fentanyl. The strategy specifically identifies "Chinese Money Laundering Organizations" that work in concert with Mexican drug cartels to launder the proceeds of fentanyl and other narcotics trafficking.

With the recent designations of Mexican drug cartels as foreign terrorist organizations, individuals or corporate entities that aid, abet or facilitate money laundering could also be charged with providing material support to a terrorist organization under Title 18 of the U.S. Code, Section 2339B. This statute also carries enhanced civil consequences and monetary penalties for both individuals and companies.

Conclusion

The strategy is the latest in a series of administration policy pronouncements designed to address national security concerns with China across several different agencies. DOJ enforcement in the areas mentioned above will not only address egregious instances of criminal misconduct, but also provide a powerful deterrent to ensure these policies are implemented and followed.

Notably, investigations and prosecutions in most of the above areas have previously been handled and supervised by the DOJ's National Security Division, rather than the Criminal Division, and it remains to be seen how the two entities will interact in practice. Regardless, many transnational criminal cases involving China and Chinese entities will implicate classified information and require litigation under the Classified Information Procedures Act.

Given the extraterritorial features of cases involving China, both U.S. and foreign businesses should review and enhance their compliance programs in key areas involving tariffs, export controls and sanctions. Firms engaging with Chinese financial networks or marketing Chinese VIEs are advised to reinforce anti-money laundering protocols and due diligence, since connection to illicit actors now poses greater risk.

Where issues arise or are uncovered, transparent audit trails, quick remediation and timely self-disclosures under the more-favorable strategy should be considered.

Once involved in an investigation by the U.S. government, whether civil or criminal, companies and executives must be mindful of potential criminal charges for false statements under Title 18 of the U.S. Code, Section 1001, and obstruction of justice pursuant to Section 1512. These so-called process crimes can be independently actionable, even if the underlying investigation does not result in an enforcement proceeding.

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[1] See https://www.justice.gov/opa/speech/head-criminal-division-matthew-r-galeotti-delivers-remarks-sifmas-anti-money-laundering; and https://www.justice.gov/criminal/media/1400046/dl?inline.

[2] See https://www.bis.gov/media/documents/guidance-financial-institutions-best-practices-compliance-export-administration.pdf.

[3] National Security Presidential Memorandum/NSPM-3.

[4] https://www.uscc.gov/sites/default/files/2025-03/Chinese_Companies_Listed_on_US_Stock_Exchanges_03_2025.pdf.