



The False Promise of Bifurcated Supply Chains

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SUPPLY CHAIN

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By Sayari Analyst Team · Published December 2024

Separating your China-facing and Western-facing supply chains sounds like a compliance solution. It's mostly compliance theater. Here's why corporate ownership data tells a different story.

Bifurcation has become the de facto compliance strategy for multinationals in US and Chinese markets. The logic is seductive: maintain separate supply chains for China-facing and Western-facing operations, keeping Chinese entities at arm's length from regulated technology. Tech companies have used this logic, with supply chain professionals building programs around it—particularly for Uyghur Forced Labor Prevention Act (UFLPA) compliance.

But regulators and CFIUS reviewers have grown skeptical. Bifurcation rarely achieves claimed separation. The same beneficial owner controls both entities. Intellectual property flows between operations. The shared parent remains subject to sanctions regardless of subsidiary insulation. Bifurcated structures function as compliance theater: appearance of separation while underlying risk remains intact.

What bifurcation actually means—and what it claims to solve

Bifurcation means establishing separate legal entities, management teams, and supply networks for China-facing and Western-facing operations. This addresses a real operational constraint: US companies in China face mandatory data localization, technology transfer expectations, and national security cooperation—incompatible with US export control and CFIUS review. Bifurcation is the practical response: operate in China under China's rules, in the US under theirs, minimizing contact between the two.

The compliance assumption is straightforward: no operational contact means no compliance risk. A subsidiary separate from its US parent cannot trigger export control violations. An entity

handling only civilian supply chains cannot face military diversion charges. A data-localized subsidiary cannot trigger CFIUS scrutiny.

This is the theory. The gap between theory and regulatory reality is substantial.

Why ownership structures collapse the separation

Bifurcation assumes operational separation translates to compliance separation. Regulators see ownership: who profits from both entities and what flows of capital, IP, and data connect the operations.

The same parent owns both subsidiary and US operation. When BIS and OFAC investigate bifurcated structures, they ask whether beneficial owners are subject to sanctions or CFIUS restrictions. The OFAC 50% Rule cuts through structures: a US parent owning any stake in a designated entity faces OFAC liability regardless of operational separation.

If a Chinese state-owned enterprise holds a stake in the US parent, CFIUS review becomes mandatory. Beneficial ownership creates national security concerns that bifurcation cannot address. IP flows also create risk. Technology licensed to subsidiaries carries compliance exposure if used in military applications-especially when China mandates technology transfer as market access condition.

Finance is another weak point. Bifurcated operations share the parent's financial infrastructure. Sanctions hitting a Chinese entity can cut off the parent's US financial access. CFIUS examines consolidated entities, not separated divisions. Shared corporate services-IT systems, legal compliance, auditing-compromise claimed separation when unified boards make governance decisions.

What regulators see that bifurcated corporate structures don't hide

Regulatory skepticism comes from enforcement experience. Companies claim operational separation; regulators investigate ownership and material flows; the claimed separation doesn't survive scrutiny. BIS enforcement actions repeatedly target companies maintaining bifurcated operations while sharing IP, management, or financing. OFAC's approach is direct: if the same beneficial owner controls both entities, sanctions apply to both, regardless of operational separation.

CFIUS examines the beneficial ownership graph, not the organizational chart. A Chinese government-linked minority investor in the parent company triggers mandatory CFIUS review, even if the subsidiary is completely separate.

Technology flow grounds regulatory skepticism most directly. MCF (Military-Civil Fusion) doctrine in China is designed to capture commercial technology for military applications. When US companies license technology to Chinese subsidiaries, they operate within legal boundaries-until that technology enters military applications, dual-use products, or restricted defense production. Then the licensing arrangement becomes evidence of export control violation. Trade enforcement compares what companies claim they're doing with what customs data shows they shipped. When bifurcated supply chains exist on paper but not in trade data, enforcement follows.

Joint research agreements and technology exchange programs between operations also create vulnerability. If a US parent funds research at a Chinese subsidiary later used in military applications, that spending becomes a restricted development mechanism. When companies claim bifurcation while maintaining deep technical collaboration, regulators see obscuration, not separation.

What defensible risk management looks like if bifurcation doesn't work

Operational separation is a tactical measure, not strategic solution. It reduces certain compliance exposures while obscuring others. Defensible risk management requires corporate data that verifies the claimed structure and documents flows across the boundary.

Start with corporate ownership mapping: who actually owns subsidiaries and what stake do they hold in the parent? A Chinese state-owned enterprise holding 5% of parent and 3% of subsidiary is relevant to sanctions risk and CFIUS review. If both entities share the same beneficial owner, that's the critical fact for compliance decision-making.

Extend to trade transaction analysis. Claimed bifurcation should appear in actual trade flows. Companies sourcing raw materials through a Chinese subsidiary for Chinese customers but through different chains for Western customers should demonstrate that through customs data and trade analysis. When claimed bifurcation doesn't appear in actual flows, enforcement follows.

Document IP, data, and capital flows crossing the bifurcation boundary: what technology is licensed to Chinese operations, what research is funded, what data transferred, what financing

provided. This documentation distinguishes intentional separation from accidental obscuration.

Demand ongoing monitoring of sanctions designations, export control changes, and beneficial ownership shifts. If a Chinese investor in the parent is designated or if a Chinese military-linked entity is revealed as related to a supplier, the bifurcation strategy requires re-evaluation.

Bifurcated chains address real regulatory constraints but don't solve compliance problems—they postpone them. Companies treating bifurcation as solution rather than operational reality face enforcement risk when the regulatory environment shifts or investigation reveals underlying ownership.

The most effective US-China compliance managers invest in corporate data to understand actual structures, monitor material flows across boundaries, and maintain clear documentation. This transforms risk from something regulatory discovery reveals to something companies manage on their own terms.

Sayari's platform maps corporate ownership across 400+ million entities globally and analyzes 4+ billion international trade transactions. For supply chain professionals managing US-China exposure, this visibility is foundational. You can't manage what you don't see. Request a demo to see how corporate data and trade transaction analysis transform compliance from theater into genuine risk management.

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