POLARIS
NATIONAL SECURITY

BEHIND THE VAPOR VEIL: THE CCP'S ILLICIT VAPE TRADE

EXECUTIVE SUMMARY:

Despite declining global tobacco use, China's tobacco and vaping industry continues to boom, generating upwards of $200 billion in annual revenue for the Chinese government. A surge of illicit Chinese vaping products sold across the United States over the last five years – primarily under the Biden Administration – has added to this financial bonanza. Chinese manufacturers are accruing billions in revenue from illegal U.S. vape sales, with many of these proceeds diverted to the CCP's annual budget. This revenue stream strengthens Beijing's ability to invest in its military apparatus and develop monopoly power over the global tobacco and vaping markets.

The Biden Administration's failure to provide regulatory approval to American vape products while simultaneously failing to block illicit Chinese imports has allowed the CCP to acquire billions of dollars from American consumers. The Trump Administration can deny the CCP these illicit revenue streams through modernizing law and customs enforcement to better interdict illegal Chinese products entering our country.

KEY FINDINGS:

- **China's Tobacco Industry Is Funding the CCP.** The China National Tobacco Corporation (CNTC) generates over $200 billion annually for the CCP, nearly matching China's entire official military budget.

- **China's Illicit Vape Trade in the U.S. Financially Benefits the CCP.** Since 2020, Chinese manufacturers are flooding the U.S. with illegal, unregulated e-cigarettes, which now represent over half of the total U.S. vaping market.

- **The CCP Holds Ownership Interest in Manufacturers Tied to Illicit Vape Trade.** Chinese e-cigarette manufacturers are deeply linked to the CCP through state-owned enterprises, thus funding its military and geopolitical projects.

- **Chinese Firms Are Acting with Impunity.** Chinese firms are avoiding FDA oversight by changing brand names, mislabeling shipments, and exploiting weak enforcement, enabling millions of illegal vapes to enter the U.S. undetected.

- **Mexican Cartels Are Major Players in Illegal Chinese Vapes Distribution.** Cartels, particularly Los Chapitos of the Sinaloa Cartel, have integrated illicit Chinese vapes into their smuggling operations, mirroring fentanyl trafficking networks.

- **U.S. Enforcement Measures are Failing.** The FDA has done little to halt the illicit market, allowing Chinese companies to accrue upwards of $2.4 billion in annual revenue. U.S. consumers are unwittingly bankrolling the CCP's budget.

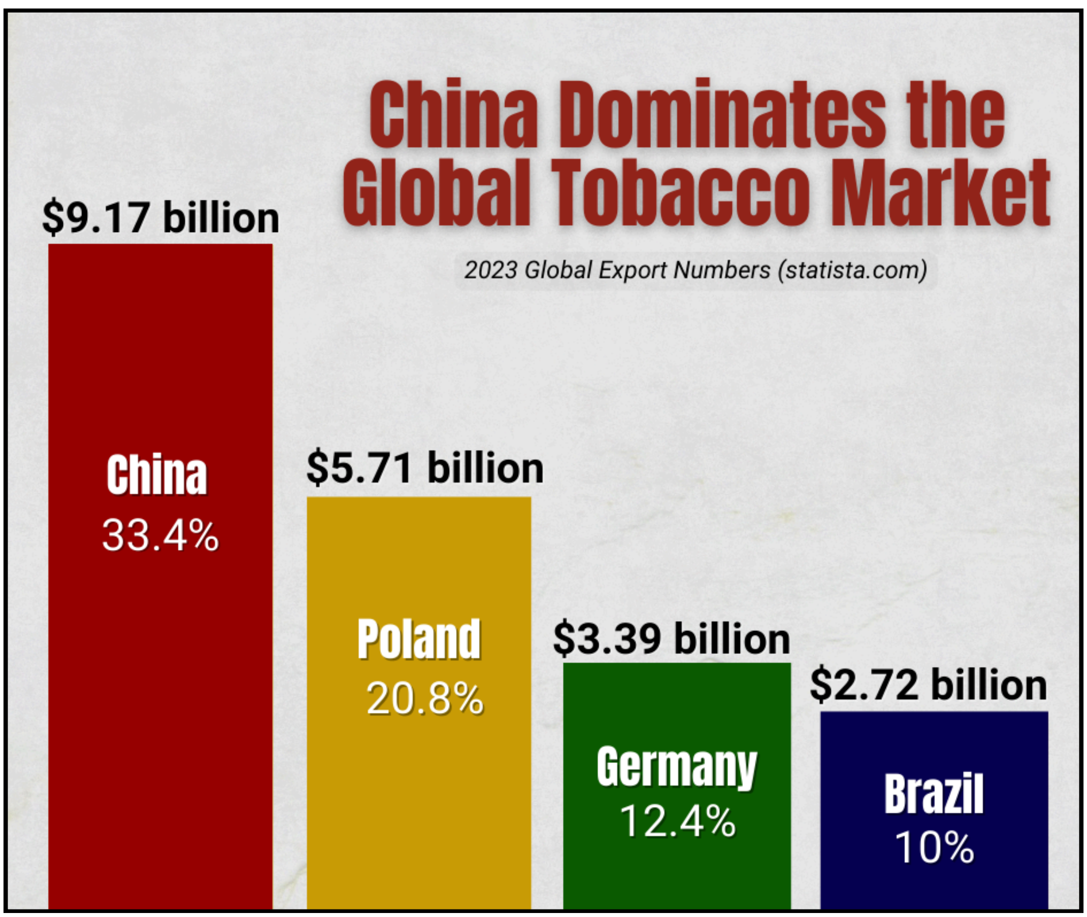
- **Chinese Brands Dominate Among America's Youth.** Seven of the top ten e-cigarette brands used by minors are illicit Chinese products, deliberately marketed to American youth–all while China bans flavored vapes domestically.

- **Federal Action is Needed.** With current seizures failing to keep pace with the flood of contraband, aggressive enforcement at ports of entry and the Southern Border are vital to cut off CCP revenues.

ALL ROADS LEAD TO BEIJING

The China National Tobacco Corporation (CNTC) is the world's largest cigarette manufacturer. It produces approximately 2.5 trillion cigarettes annually, accounting for 46% of global cigarette production. As a state-owned monopoly, CNTC operates under the direct control of the State Tobacco Monopoly Administration (STMA). STMA is charged with managing the state's "monopoly on tobacco" and reports to China's Ministry of Industry and Information Technology (MIIT), a CCP-run entity under the authority of China's State Council.

As global consumer markets shift away from traditional cigarettes, the vaping industry has surged, with the global e-cigarette market projected to reach $182 billion by 2030, growing at a CAGR of 30% from 2022. In response, the STMA has tightened its regulatory grip on China's e-vapor industry while aggressively exporting many of the $22 billion vape industry's products aggressively to American children and the world.



THE CCP'S CASH COW

China's tobacco profits and tax revenue **exceed $200 billion each year**, representing over seven percent of China's overall tax revenue. In 2022, China's tobacco industry generated $213 billion in total profit and tax revenue. Last year, that figure rose to $221 billion. These sums are make up about 7.3% of total Chinese government revenue and are roughly equivalent to the PLA's official annual military budget (the real level of military spending is likely closer to $700 billion as POLARIS has previously noted), a connection that has led some Chinese citizens to cynically remark that smoking supports the PLA in building warships. The majority of this revenue is derived from Shenzhen, China — a region widely recognized as the epicenter of the global vaping industry, often referred to as 'Vape Valley.'

Notably, the STMA is also a major funder of the CCP's $45 billion microchip development initiative–known as the 'Big Fund'–and it has aided the Belt and Road Initiative, long viewed as a predatory project.

ALL ROADS LEAD TO BEIJING CONT.

Chinese e-vapor manufacturers are **heavily regulated and managed by CCP-controlled entities**, reporting directly to the State Tobacco Monopoly Administration (STMA), which oversees licensing, production quotas, and compliance. The STMA, in turn, operates under the Ministry of Industry and Information Technology (MIIT) and ultimately the State Council. These manufacturers also share deep operational linkages: major e-cigarette companies like SMOK are based in industrial development zones such as Shenzhen Bay Eco-Tech Park, following STMA directives. Shenzhen, often referred to as **"Vape Valley," produces a staggering 90% of the world's vaping devices.**

Industrial parks and zones are managed by holding companies like Shenzhen Investment Holdings Co. Ltd. which are **state-owned enterprises.** These holding companies provide research, design, materials, manufacturing, and supply chain management services to Chinese e-cigarette manufacturers. They are owned by provincial Chinese governments such as the Shenzhen Municipal People's Government and managed by the central State-Owned Assets Supervision and Administration Commission of the State Council.

As a condition for issuing manufacturing licenses, the STMA issues funding requirements on Chinese e-cigarette manufacturers. With state-owned enterprises being the only sufficient funding source, e-cigarette manufacturers must issue either debt or equity to them. Crucially, for Chinese markets, the liquid pods are not allowed to be conducive to minors and are not allowed to have any flavor other than tobacco. **The e-cigarettes exported abroad do not have such flavor restrictions.**

These dynamics indicate that **Chinese e-cigarette manufacturers are tied to the CCP** in two critical ways. First, Chinese provincial governments own the holding companies that manage industrial parks and zones and in turn provide services and resources to e-cigarette manufacturers. Second, e-cigarette manufacturers obtain funding via state-owned enterprises, presumably in exchange for equity or debt. Article 19 of the STMA's e-cigarette rules specifies that foreign investment in the wholesale or retail of e-cigarettes in China is strictly prohibited. These dynamics demonstrate that China's State Council has a direct financial interest in the profits generated by Chinese e-cigarette manufacturers–and that CNTC is a revenue stream for the CCP via the STMA.

CHINA'S ILLICIT MARKET IN THE UNITED STATES

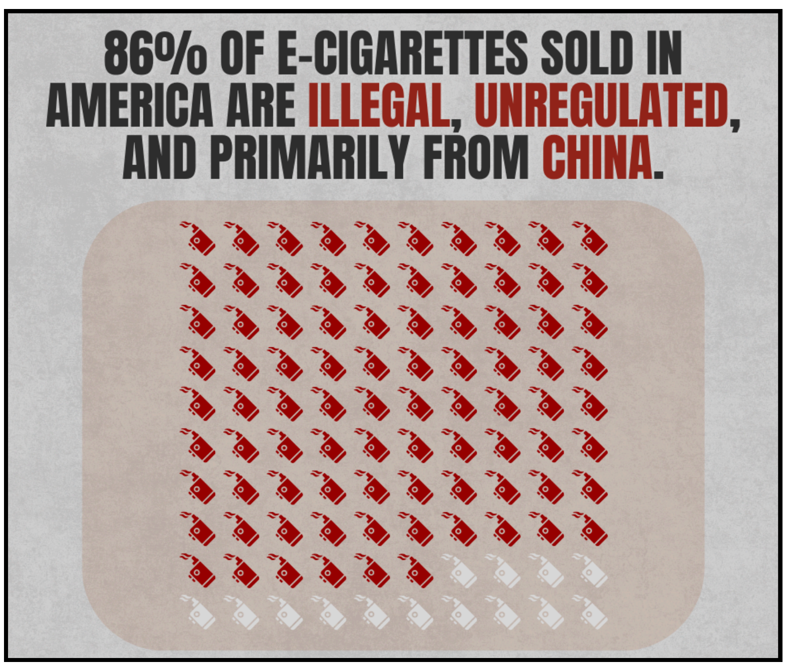
SCOPE OF THE CHALLENGE:

Since 2016, it has been **illegal** under U.S. law to bring any new tobacco product to market without FDA authorization. Since then, only 34 vape products have been authorized by the Food and Drug Administration (FDA) out of 26 million product applications. However since 2020, Chinese tobacco companies have flooded the U.S. market with millions of unregulated and illegal vapor products. Last year alone, China exported an **estimated 216 million units** of illicit disposable vaping devices into the United States, exploiting regulatory loopholes.[1] This rapid influx represents an average of 591,780 units entering the country every day.

The financial scale of this trade is significant. The contraband sales in the United States have an estimated annual retail value of at least $2.4 billion, fueling revenue for Chinese manufacturers and the Chinese Communist Party–and representing a significant tax revenue loss for the United States. Chinese vape exports account for about **$11 billion globally**, but the scale and persistence of this trade is acute in the United States.

HOW ILLICIT CHINESE VAPES ENTER AMERICA:

Chinese vape products are smuggled into the U.S. via complex distribution networks involving air and sea shipments. Regulatory oversight at U.S. ports of entry has proven inadequate, allowing millions of illicit units to pass through **unchecked.** Despite the FDA's efforts to control imports, many illicit shipments go undetected, with the majority of illegal vape products escaping scrutiny. In fact, an estimated 86% of the e-cigarettes sold in American markets have escaped FDA inspection.[2]



[1] Based on estimates from illicit vape sales in 2024, totaling $2.4 billion in retail sales, and an assumed average retail price of $10 per device, resulting in approximately 240 million illicit vapes. With 90% originating from China, this equates to 216 million vapes from China infiltrating the U.S. in 2024.

[2] Truth Initiative researchers examined U.S. retail sales data and determined that the 34 e-cigarette products authorized for marketing by the FDA comprise only 13.7% of the e-cigarette market, while illegal e-cigarette products that lack marketing authorization constitute the vast majority (86.3%) of the market.

The FDA's enforcement measures under the Biden Administration proved inadequate for blocking this contraband flow. Despite the overwhelming volume of illicit Chinese vaping products, only 9,799 properly coded e-vapor-related shipments were imported in FY2024, according to the FDA's OASIS database. Conversely, the overwhelming **majority of illicit e-vapor products are not reported to FDA** or included in data counts.

The data that FDA does hold is specific to manufacturers rather than illicit vapor brands–information on which can be gleaned from other public sources including FDA warning letters, USPTO trademarks, and product labels.

Under the Biden presidency, FDA allowed shipments from known illicit e-vapor product manufacturers to enter the United States, **even after physically inspecting shipments.** Shockingly, over 72% of declared shipments were automatically released while only 7.3% were refused. Even when inspections did occur, known manufacturers of illicit Chinese vapes continue to bypass existing enforcement mechanisms.

EVASION TACTICS:

China's vape manufacturers engage in a variety of **deception tactics** to circumvent authorities and evade U.S. regulations. Chinese brands frequently change names to avoid detection, a tactic used repeatedly by Chinese producers. For example, in an effort to get around U.S. regulators, Elf Bar has rebranded its product lines EB Designs, Off-Stamp and Rab Beats, Geek Bar has rebranded to DigiFlavor and RAZ Vapes has rebranded to RYL Vapes. Shipments are also routinely mislabeled as non-vape products such as battery chargers, flashlights, and other items to reduce scrutiny. This tactic also allows the products to avoid or reduce U.S. tariffs.

The problem of evasion has been normalized thanks to lax enforcement by U.S. authorities. In January, the FDA touted its enforcement efforts for 2024 that included issuing just 44 civil monetary penalties and warning letters to 50 manufacturers and distributors for selling unauthorized tobacco products.

Unfortunately, these efforts only covered a small portion of the illicit activity. The FDA rarely uses stronger tools to block the illicit market, including seizures and injunctions. Chinese sales of these illicit products reached $2.4 billion in value in the United States in 2024. Meanwhile, the FDA announced seizures of illicit Chinese vapes worth less than $80 million dollars during that same period. Heaven Gifts and other e-cigarette sellers regularly disregard U.S. regulations, and existing consequences clearly are not deterring their behavior. As a result, illicit U.S. sales continue to generate billions of dollars in revenue for Chinese manufacturers.

THE ROLE OF MEXICAN CARTELS:

Mexican drug cartels have also **integrated Chinese vapes into their business portfolio.** Since Mexico banned e-cigarettes in 2022, factions within the Sinaloa cartel such as Los Chapitos have aggressively smuggled these products across Mexico.

Other reports indicate that Mexican cartels have mandated their business owners to sell illicit Chinese vapes, including brands like iJoy Bar. The distribution networks used by cartels for fentanyl trafficking also appear to mirror those of illicit vapes in the homeland.

The Sinaloa cartel's transition toward the illicit vape trade reflects a broader trend with cartels diversifying into new revenue streams. While America is finally on the offensive against the fentanyl crisis thanks to the Trump Administration's crackdown on counter-narcotics trafficking, we must be vigilant against the cartels as they seek new illicit trading opportunities.

A 2023 letter to the Biden Administration from U.S. Senators, including now-Secretary of State Marco Rubio, urged the Treasury Department to take actions against Mexican cartels and their allies in illicit tobacco smuggling before they were "able to further spread its mafia-like business practices into the United States."

- CANDY AND FRUIT FLAVORS
- BRANDING TO RESEMBLE CARTOON CHARACTERS
- DESIGNED TO MIMIC TOYS AND SMARTPHONES
- BRIGHT COLORS AND CONCEALABLE DESIGN

THE THREAT TO OUR YOUTH

Illicit Chinese vaping products pose an acute threat to America's youth. According to the CDC's National Youth Tobacco Survey, high school use of disposable Chinese vapes increased massively between 2019 and 2023. The most popular brands among minors–and seven of the top ten brands–remain illicit, flavored, and unregulated. Minors are specifically targeted with marketing on flavored products, which are designed to appeal to youth by resembling smartphones or featuring cartoon characters.

Conversely, the CCP maintains strict domestic controls on flavored e-cigarettes to restrict their use among China's youth. As of October 1, 2022, the State Administration for Market Regulation – at the behest of China's State Council – banned all flavors except tobacco and prohibited online sales and has imposed strict domestic production quotas. Meanwhile, Chinese manufacturers export many of the $22 billion vape industry's products aggressively to American children and the world.

POLICY RECOMMENDATIONS:

To address this growing crisis, the U.S. government must implement aggressive enforcement measures targeting both Chinese manufacturers and domestic distributors of illicit vapes. Key actions should include:

- **Enhanced Enforcement Against Illicit Vape Suppliers:** With nearly 40% of all shipments of illicit e-vapor products to the U.S. comprising just the top ten manufacturers, federal agencies should target the largest illicit actors to deter others. Criminal prosecutions, civil litigation, and financial forfeitures should be employed against major domestic manufacturers, importers, distributors, and online retailers involved in the illicit vape trade and at all levels of its supply chain. This should include civil and criminal complaints from DOJ across the full spectrum of criminal conduct.

- **Stronger Importation Controls:** The FDA and CBP must coordinate to implement a comprehensive import prevention strategy, including categorical import alerts, consistent refusals of illicit vapor products, and investigations of all brokers and importers engaging in illicit conduct.

- **Increased Inspections and Retailer Compliance Measures:** The FDA could establish an enhanced retailer inspection program, a distributor oversight initiative, and enforcement actions against online e-cigarette marketplaces including websites and e-commerce platforms.

- **Comprehensive Policy Reform:** Policymakers should mirror enforcement strategies used to combat fentanyl trafficking, recognizing that the CCP directly benefits from the illicit vape trade as it has from fentanyl production. The FDA should ensure the supply of legally authorized vape products is sufficient to meet total demand and provide new authorizations needed to rectify any imbalances as they work to eliminate the illicit supply. The FDA should produce and distribute an updated list of all products that have been given FDA authorization, those currently under review, and all products that have been denied authorization – as well as their country of origin. This clarity would assist federal, state, and local law enforcement officials in efforts to thwart the illicit vape market. There is no such list currently available to the public.

CONCLUSION:

China's illicit vape trade remains an ongoing threat to U.S. security by bankrolling the PRC's budget and endangering the health of America's youth. Biden Administration inaction created a permissive environment for Chinese manufacturers to exploit.

As a result, the CCP continues to leverage this illicit market to siphon billions of dollars from American consumers at the expense of American small businesses who cannot sell their own products and do not sell illicit products. The CCP can then divert these funds to expand its military and advance its geopolitical ambitions. Mexican cartels are also exploiting U.S. enforcement gaps to entrench their smuggling networks.

Implementing common-sense policy recommendations can prevent China's illicit vape industry from metastasizing, recoup billions in future revenues, protect American consumers and businesses, and undercut organized crime networks threatening public safety.