

THE BIG PICTURE

## Meet the Military Affiliates

Trump's November executive order branded 31 companies as having ties to the People's Liberation Army. Who are they, and who has stakes in them?

BY HANNAH REALE — DECEMBER 6, 2020



President Donald J. Trump on Nov. 13, 2020, the day after he signed the executive order restricting U.S. investment in Chinese military affiliates.

Credit: Tia Dufour, Official White House Photo

On November 12th, President Donald Trump [signed an executive order](#) barring U.S. investment in firms affiliated with the Chinese military, saying the firms were a threat to national security. American investors may not purchase new shares in the companies after January 11, 2021, and have until November 2021 to divest of any shares they already hold.

The order included a list of 31 Chinese companies, including 20 companies the Pentagon had designated last June as being [Chinese military-affiliated companies](#), along with 11 additional companies added in late August. On Dec. 3, the Department of Defense [added four more Chinese firms](#) to the list, including the oil giant China National Offshore Oil Corp. (CNOOC); the engineering and construction contractor China Construction Technology Co.; the construction company China International Engineering Consulting Corp. (CIECC); and Semiconductor Manufacturing International Corp. (SMIC), which is one of China's most advanced semiconductor firms.

The executive order targeting these largely state-owned firms is a dramatic move because billions of dollars from some of America's biggest fund management companies have invested in these firms over the last decade. Several of the Chinese companies even have subsidiaries that trade on the New York Stock Exchange. In this week's issue, *The Wire* examines the 31 companies named in the November executive order, other actions that have

Executive Order 13895 of November 12, 2020

### Addressing the Threat From Securities Investments That Finance Communist Chinese Military Companies

By the authority vested in me as President by the Constitution and the laws of the United States of America, including the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.) (IEEPA), the National Emergencies Act (50 U.S.C. 1601 et seq.), and section 301 of title 3, United States Code,

I, DONALD E. TRUMP, President of the United States of America, find that the People's Republic of China (PRC) is increasingly exploiting United States capital to resource and to enable the development and modernization of its military, intelligence, and other security apparatuses, which continues to allow the PRC to directly threaten the United States homeland and United States forces overseas, including by developing and deploying weapons of mass destruction, advanced conventional weapons, and malicious cyber-enabled actions against the United States and its people.

Key to the development of the PRC's military, intelligence, and other security apparatuses is the country's large, ostensibly private economy. Through the national strategy of Military-Civil Fusion, the PRC increases the size of the country's military-industrial complex by compelling civilian Chinese companies to support its military and intelligence activities. Those companies, though remaining ostensibly private and civilian, directly support the PRC's military, intelligence, and security apparatuses and activities.

President Donald Trump signed the new Executive Order on Thursday, Nov. 12, 2020.

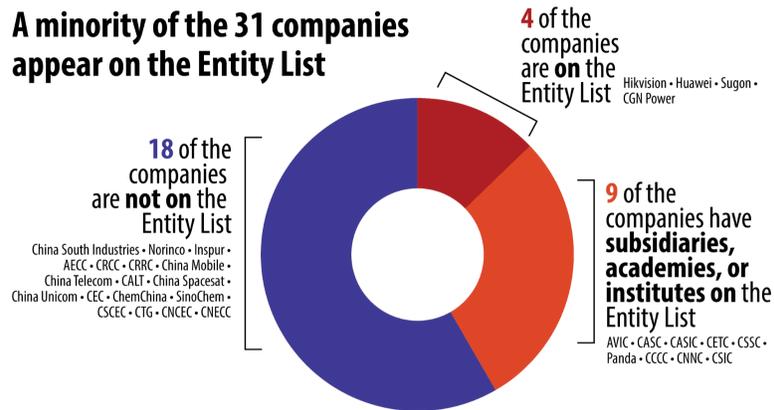
Credit: [Federal Register](#)

been taken against the groups, and we look at what's at stake for big fund managers like BlackRock, one of the world's biggest asset management firms.

## Who's on the List?

The list of military-affiliated companies doesn't only include defense contractors. Though companies like CASIC, which designs and manufactures missiles, are named, the list also includes state-backed firms that produce aircrafts, bridges, supercomputers, video surveillance cameras, nuclear power plants and even chemicals and agricultural goods. Some are also involved in China's ambitious infrastructure development program called the Belt and Road Initiative.

The new list includes several companies that had already been sanctioned by being placed on the U.S. Commerce Department's [Entity List](#), a designation that restricts American companies from exporting goods to them without approval from the federal government. Four companies — Huawei, Hikvision, Sugon, and China General Nuclear Power — are already on the U.S. Entity List and many more named in the executive order have subsidiaries or divisions on the list. In August, for instance, several subsidiaries of the China Communications Construction Company [were added](#) to the entity list for their role in building military installations on islands in the South China Sea.



Four of the 31 companies appear on the Entity List.

Data: [Federal Register](#)

Most of the companies are state-owned enterprises, operating under the supervision of Beijing's State-Owned Assets Supervision Administration Commission. Many firms also have close ties to other big state entities. The China Nuclear Engineering and Construction Corporation, for instance, was merged into China National Nuclear (CNNC) in 2018, and Panda Electronics operates under the China Electronics Corporation (CEC). Meanwhile, the China Academy of Launch Vehicle Technology (CALT) and China Spacesat each operate under the China Aerospace Science and Technology Corp, or CASC. More details about the companies' relationships can be found in the table below.

While the Pentagon has listed the firms as military affiliates, it has given no details as to how it has made that determination. For instance, it's not clear how the oil giant CNOOC or China Mobile of China Telecom can be considered military affiliates, though some analysts have argued that many state run enterprises are compelled to work with the military or share equipment and intelligence.

### 31 Companies Named in Trump's Executive Order

Company	Description
	State-owned AECC researches, develops, and manufactures aviation equipment, particularly aircraft engines.



Aviation Industry Corporation of China

AVIC is an aviation and avionics conglomerate that is one of China's largest defense contractors. The state-owned company supplies military aircraft to the People's Liberation Army.



China Academy of Launch Vehicle Technology

State-owned CALT designs and manufactures rockets and other military and civilian spacecraft, specializing in launch vehicles. It has been previously sanctioned by the U.S. for missile sales to Pakistan. CALT is a subsidiary of CASC, another company named in the executive order.



中国航天

China Aerospace Science & Technology Corporation

CASC, a large state-owned defense contractor, is the main company responsible for producing technology for China's space program, including manned spaceflight and lunar, Mars, and asteroid exploration.



China Aerospace Science & Industry Corporation

CSIC is the country's largest manufacturer of missiles. The state-owned company also produces spacecraft and launch vehicles for China's space program, and is one of the top ten defense contractors in the world.



China Communications Construction Group Company

State-controlled CCCC builds ports and bridges, heavy machinery, dredging equipment, and transportation infrastructure. The company was established in 2006 and it has a listed company that trades in Shanghai and Hong Kong. Several of its subsidiaries were added to the U.S. Entity List in August 2020 for their involvement in constructing military islands in the South China Sea.



China Electronics Corporation

CEC, a state-owned company, designs and manufactures a range of electronics, including circuits and displays. It controls several companies listed on the Shanghai and Shenzhen stock exchanges.



China Electronics Technology Group Corporation

CETC is a state-owned producer of military equipment, software, communications and research services, including advanced anti-stealth radar.



China Mobile Communications

State-owned China Mobile is one of the world's largest mobile network operators, and one of the world's most valuable companies. Listed on the New York and Hong Kong Stock Exchanges, the company has more than \$100 billion in revenue. The FCC blocked China Mobile's bid to support U.S.-international communications on national security grounds in May 2019.



China National Chemical Corporation

ChemChina, which is controlled by the state, is a major player in chemicals and infrastructure contracting. A subsidiary was listed on the Shanghai Stock Exchange in 2010, and ChemChina controls Adama, an agriculture company listed in Shenzhen.



China National Chemical Engineering Group Corporation

CNCEC, a state-owned company, works in engineering and construction projects that range from infrastructure to nuclear. It was partly created out of SinoChem, another entity included in the executive order, and markets itself as a major player in the Belt and Road Initiative. A major subsidiary was listed on the Shanghai Stock Exchange in 2010.



China National Nuclear

CNNC, a state-run company, builds and operates nuclear power plants, and has ties to China's military nuclear weapons program. A subsidiary of the company is listed on the Shanghai Stock Exchange.



China Nuclear Engineering & Construction Corporation

CNECC is a contractor specializing in nuclear power plants. A subsidiary is listed on the Shanghai Stock Exchange. CNECC was merged into CNNC in 2018, and CNNC owns the majority its subsidiary's publicly traded shares.



China General Nuclear Power

CGN Power is a state-owned company that builds and operates nuclear power plants across China. A subsidiary was listed on the Hong Kong Stock Exchange in 2014 and has been the subject of U.S. sanctions. In 2016, the U.S. Justice Department accused the company of stealing American nuclear secrets.



中国铁建

China Railway Construction Corporation

CRCC is China's massive railway and infrastructure construction service company. The government-owned company, which is listed in Hong Kong and Shanghai, reported about \$120 billion in revenue in 2019. The company has operations linked to China's Belt and Road Initiative.



China Shipbuilding Industry Corporation

CSIC designs and manufactures ships for civilian and military uses, and is the largest supplier to the PLA Navy. CSIC's merger with CSSC, another of the 31 companies, was approved late last year.



China South Industries Group Corporation

State-owned CSGC, also known as China Ordnance Equipment Group Corporation, makes military and civilian vehicles. It has partnerships with multinational car companies such as Ford, Mazda, Honda, and PSA Group through its subsidiary Chang'an Automobile, which in turn has a listed subsidiary on the Shenzhen Stock Exchange.

	China Spacesat	The state-owned company develops and manufactures satellites. China Spacesat is listed on the Shanghai Stock Exchange and operates under CASC, another of the 31 companies in the Executive Order.
	China State Construction Group	CSCEC is a dominant player in urban and civilian construction. It has huge domestic and international presences — it builds and operates Belt and Road projects and, according to its website, it's built the homes of one out of every 25 Chinese people. The government-controlled group's shares are traded on the Shanghai Stock Exchange.
	China State Shipbuilding Corporation	State-owned CSSC is a huge shipbuilding company, and with its announced merger last year with CSIC, it will form the world's largest shipbuilder, handling oil tankers, container ships, LNG carriers, and war ships for the PLA Navy. The new company, which will be headquartered in Beijing, will have \$112 billion in assets. CSSC has holdings listed on the Shanghai Stock Exchange.
	China Telecommunications	China Telecom is one of the world's biggest internet and phone service providers. The state-owned company has subsidiaries listed on the Hong Kong and New York stock exchanges.
	China Three Gorges Corporation	CTG, wholly owned by SASAC, is a renewable energy group with a focus on hydropower. It made its name building and operating the massive Three Gorges Dam on the Yangtze River, and now has a role in bringing renewable energy to more than 40 countries.
	China United Network Communications Group	China Unicom is a state-owned telecommunications provider. A Hong Kong subsidiary is listed on the Hong Kong and New York Stock Exchanges.
	CRRC Corporation	The state-owned enterprise is the world's largest railway vehicle manufacturer, and has built a large assembly complex in Springfield, Mass. CRRC holds billion-dollar contracts with transit systems across the U.S., including Boston, Chicago, and Los Angeles, primarily to make railcars for their subway and light rail systems. It has shares listed in both Shanghai and Hong Kong.
	Dawning Information Industry Co	Sugon is a state-owned manufacturer of supercomputers and known for producing some of the fastest computers in the world. It uses U.S. chips and other technology to build its supercomputers, which it acknowledges has ties to the PLA. The company is listed in Shanghai.
	Hikvision	Hangzhou Hikvision Digital Technology, a state-controlled firm, is one of the world's biggest makers of video surveillance equipment, both for consumer use as well as for the Chinese military. It's listed on the Shenzhen Stock Exchange.
	Huawei	Huawei is one of the world's biggest mobile phone and telecommunication equipment makers, and a global leader in 5G technology. The U.S. has warned for years that the company may have ties to the Chinese military, though very little detail has been released about their ties.
	Inspur Group	Inspur Group is a state-backed cloud computing and big data company that is among the world's top server vendors by revenue, according to market research firm IDC. The company makes servers for Chinese and multinational companies, and reportedly for the Chinese military. A subsidiary is listed on the Shenzhen Stock Exchange.
	Norinco Group	State-owned Norinco Group, China North Industries Group, is China's second-largest defense contractor and main producer of weapons such as armored vehicles, missile defense, artillery, and small arms for the PLA. According to state-run media outlet China Daily, it is the "cornerstone of the PLA's equipment development" and the "backbone of its strike ability."
	Panda Electronics	Panda Electronics, a state-owned firm founded in 1992 and based in Nanjing, designs, manufactures, and supplies electronics in China, including mobile phones, data cards, TV sets, software and surveillance equipment. A subsidiary of the company was dual listed in 1996 on the Hong Kong and Shanghai Stock Exchanges. Panda operates under CEC, another company named in the order.
	Sinochem Group	Sinochem, a state-owned enterprise, is a leader in the oil, chemical, and agricultural industries. Sinochem controls companies listed on the Shanghai and Hong Kong Stock Exchanges.

President Donald Trump named 31 companies in his Nov. 12, 2020, Executive Order.

Data: Federal Register, company websites, S&P, WireScreen

## American Investments in the Chinese Military

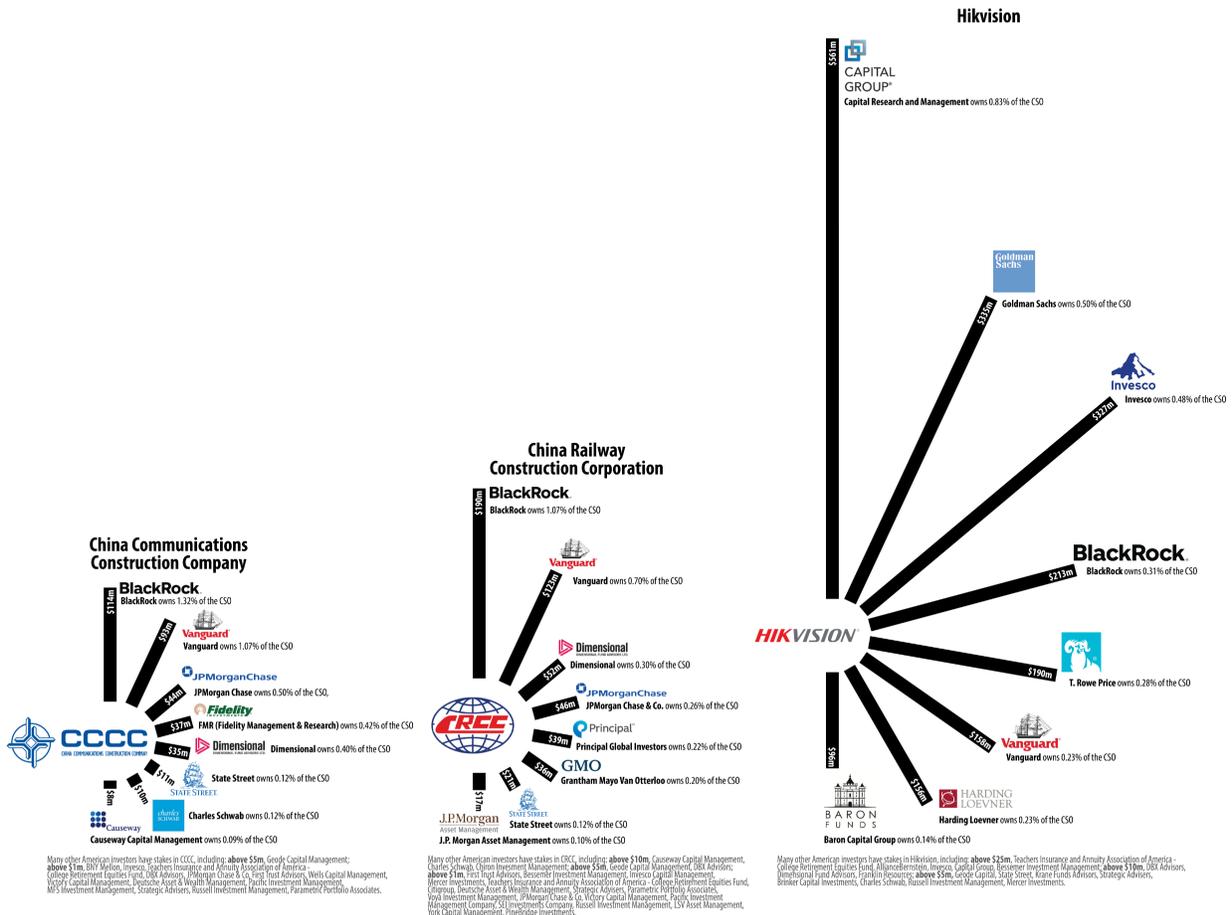
For years, some of America's biggest financial services firms have for invested in Chinese

military affiliates by purchasing shares in the companies on China's three major stock exchanges, in Hong Kong, Shanghai and Shenzhen. Data from S&P's CapitalIQ shows that American investors hold more than \$2.3 billion worth of stock in Hikvision, whose shares trade in Hong Kong. For example, Black Rock, the American fund giant, and many other institutional fund managers, such as Fidelity and Oppenheimer, routinely buy shares of state-owned Chinese firms. Vanguard is a major investor in Chinese firms, and in 2008, Yale University (through a fund managed by [Hillhouse Capital](#)) was a [cornerstone investor](#) in the Hong Kong initial public offering (IPO) of [China Railway Construction Corporation](#):<sup>1</sup> one of the 31 companies named in President Trump's directive. The executive order could also have a huge impact by restricting Americans from investing in the corporate bonds of those firms.

The executive order has already had an impact on U.S. investor behavior, though the full effects are not yet clear. J.P. Morgan Chase [told clients](#) that its new debt indexes will not include companies listed in the executive order. The [FTSE Russell Index also said Friday](#) that it would drop eight companies that the U.S. had placed on the Pentagon list, according to the [Financial Times](#).

Financial giants like J.P. Morgan, State Street and Charles Schwab will now have to rethink exposure to China's markets, even as Washington is considering an even more significant attack on China's ability to raise funds here: a proposal that would delist Chinese firms from U.S. stock exchanges if they are unable to comply with U.S. accounting standards.

Below are three Chinese firms named as military affiliates, and their largest American investors.



Top U.S. investors in each of the three companies shown hold 2.5 to 3.5 percent of the common stock outstanding (CSO). American firms hold more than \$350 million in CCCC shares, more than \$500 million in CRCC, and more than \$2 billion in Hikvision shares.

Data: S&P



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● COVER STORY



## Pole Position

BY EYCK FREYMANN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

● THE BIG PICTURE



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BY GARRETT O'BRIEN

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● Q & A



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BY ANDREW PEOPLE

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