Prague Security Studies Institute
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PSSI Report

THE SECURITY AND HUMAN RIGHTS IMPLICATIONS OF CHINESE CORPORATE "BAD ACTORS" TRADED ON THE FRANKFURT STOCK EXCHANGE

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EXECUTIVE SUMMARY

Hundreds of millions of unwitting retail investors worldwide are currently holding in their retirement accounts and investment portfolios the public securities (i.e., stocks and bonds) of Chinese "bad actor" companies that are saddled with significant risk related to their track records on national security and human rights. Intellectual property theft, particularly among developers of emerging technologies with dual-use military capability, as well as corporate espionage and cyberattacks by Chinese companies and departments within the People's Liberation Army (PLA) compound the national security and material risks associated with many Chinese companies operating overseas and accessing international capital markets.

These companies include entities that have been sanctioned by the U.S. and other governments for a range of reasons, including links to: the PLA; egregious human rights abuses, including the aiding and abetting of genocide against the Uyghurs and other religious minorities in Xinjiang; the building and militarizing of illegally claimed islands in the South China Sea; the manufacturing of advanced weapons systems; the construction of an oppressive "surveillance state"; weapons proliferation concerns; and environmental degradation among other serious abuses. Like all Chinese enterprises, these entities are also bound by Article 7 of China's 2017 National Intelligence Law, which states that they are obligated to "support, cooperate and collaborate in national intelligence work and guard the secrecy of national intelligence work they are aware of."[1] Many are also now obligated to have representatives of the Chinese Communist Party embedded in their senior management structures.

Our research has found that the Frankfurt Stock Exchange (FSE) hosts at least seven such Chinese "bad actor" companies through primary listings on the exchange and at least 68 via the listing of a direct subsidiary or affiliate. The problematic backgrounds of these companies create asymmetric, material risks for German and other European investors. Further, the presence of these companies on the FSE reflects a glaring shortfall in security-minded and human rights-related diligence on the part of Germany's regulatory regime, and, as recent incidents show, threatens serious damage to the value and reputation of the passive and active investment portfolios of European investors.

The recent trajectory of U.S. policy and regulatory actions targeting the public securities of certain of these companies further illustrates the potential risk exposure facing investors, likely resulting in reduced liquidity in the shares of the respective sanctioned companies and potential pressure on their share values. This will likely be exacerbated as pension funds, index funds, and retail investors (perhaps initially those based in the United States) are compelled to divest their holdings, whether due to ethical and reputational concerns or due to outright official prohibitions.

The scope of this report also covers aspects of material risk related to publicly traded Chinese companies that have the potential to impact the European investment community in other ways. Chinese authorities, for example, have consistently blocked their overseas-listed companies from complying with material risk disclosure requirements, including those needed for independently audited statements. In several

1 https://www.lawfareblog.com/beijings-new-national-intelligence-law-defense-offense

high-profile instances, the lack of adequate disclosure has masked serious financial irregularities that, once exposed, resulted in material financial harm to investors.

The array of risk concerns covered in this report – ranging from issues of non-disclosure to national security and human rights – is intended to underscore the need for greater diligence, regulation and awareness in the interest of investor protection and prudent risk management.

BACKGROUND: NEW CATEGORIES OF "MATERIAL RISK" IN GLOBAL CAPITAL MARKETS

Beijing's rigid demand for dollar- and euro-denominated capital to finance its Belt and Road Initiative (BRI) and other costly strategic plans has, over the past two or more decades, driven Chinese companies to raise trillions of dollars in foreign markets. On the equity side, they obtain primary listing status on global stock exchanges via an initial public offering (IPO) or through a reverse-merger with an existing publicly-traded shell company. Aside from providing companies with access to dollar- and euro-denominated capital, overseas listings also increase a Chinese company's international visibility, perceived legitimacy and status.

This prestige and access are afforded these companies despite the fact that established rules for transparency and sound financial and corporate governance are routinely circumvented, not to mention the lack of scrutiny of their track records on national security and human rights, all contributing to the risks posed to investors.

Increased regulatory action in the United States has contributed to the problem facing European investors, as Chinese companies have sought, in response, to expand their presence in non-U.S. markets that they perceive to have a lesser appetite for regulation on these issues (and, potentially, the diplomatic backlash that it could trigger). In the United States, added scrutiny facing publicly traded Chinese companies began with the Sarbanes-Oxley Act of 2012 and escalated in November 2020 with a policy prohibiting U.S. persons from holding the securities of companies designated by the U.S. Department of Defense as "Communist Chinese Military Companies."

International investor exposure to publicly traded Chinese companies, including known U.S.-sanctioned companies and other corporate "bad actors," increased severalfold when MSCI released its first list of 234 Chinese A-shares to be included in its MSCI Emerging Markets Index (MSCI EM Index) in May 2018.[2] The MSCI EM Index consists of companies from 23 emerging markets, with over $1.8 trillion in active and passive assets benchmarked against it.[3]

One year later, global index provider FTSE Russell followed suit with its decision to incorporate the China mainland A Shares of 1,051 companies into its FTSE Emerging Index, which is tracked by $140 billion globally.[4] Managers responsible for the design and calibration of indices, including those of MSCI

2 https://www.msci.com/msci-china-a-inclusion

3 https://www.msci.com/documents/1296102/1362201/MSCI-MIS-EM-May-2018.pdf/b1b05adf-4bf3-9acc-404c-9865da3e9997

4 https://www.ftserussell.com/blogs/china-shares-inclusion-seven-key-points

and FTSE, appear to be performing little to no security- or ESG-minded diligence before incorporating constituent companies. Indeed, passive investment vehicles are one of the most significant paths (one of very little resistance) for Chinese corporate “bad actors” entering the U.S. and European capital markets.

FRANKFURT STOCK EXCHANGE (BÖRSE FRANKFURT)

The Frankfurt Stock Exchange is Europe’s third-largest by both market capitalization (valued at $1.7-2 trillion), and liquidity.[5] The FSE is divided into two regulatory regimes, the regulated market and the open market, which span its two trading venues: Börse Frankfurt and Xetra. The regulated market is governed by EU and German law and includes two sub-segments of listing classifications, General Standard and Prime Standard, which carry additional post-admission reporting obligations and higher initial disclosure requirements (i.e., EU prospectus regulation and the MiFID II directive).

By contrast, the open market, which requires only the Scale Standard, is governed and regulated by the exchange itself, the Deutsche Börse Cash Market (DBAG), and carries few initial disclosure requirements and virtually no follow-on reporting for listed companies. Stemming from these seeming inadequacies, the FSE has already faced accusations of inadequate investor protection from the higher risks associated with Chinese stocks traded on the exchange’s open market.

A series of fraud cases in 2014 involving Chinese securities caused many retail and institutional investors who experienced material losses to point to the glaring disparity in the oversight and reporting requirements associated with Chinese equities and the outsized risk inherent in investing in them. In those instances, a lack of cooperation, from China’s Securities Regulatory Commission (CSRC) meant that German investors were unable to recover any funds or damages from the offending companies. The de facto legal immunity enjoyed by Chinese executives complicit in these circumstances led German securities lawyers and investors to call for this loophole to be closed through greater accountability by FSE-listed Chinese companies and a system of shareholder redress.[6]

Another practice permitted by the FSE is dual listings by companies registered on any of 50 foreign exchanges, including Shanghai, Shenzhen, and Hong Kong. In 2015, FSE operator Deutsche Börse Group signed an agreement with the Shanghai Stock Exchange creating the China Europe International Exchange (CEINEX), with the goal of allowing Chinese companies already listed on the Shanghai Exchange to offer so-called ‘D-Shares’ (Deutschland Shares), subject to the approval of regulatory authorities in both China and Germany.[7]

Chinese media reported that the CEINEX had also hoped to launch a stock connect program with Chinese mainland exchanges to create an offshore market for A share derivates.[8] Neither the stock connect

5 https://www.statista.com/statistics/270126/largest-stock-exchange-operators-by-market-capitalization-of-listed-companies/

6 https://www.reuters.com/article/us-germany-deutscheboerse-china-insight/frankfurt-exchanges-china-dream-turns-to-nightmare-idUKKCN0HH2T020140923

7 https://www.hedgeweek.com/2015/10/30/233235/sse-deutsche-b%C3%B6rse-and-cffex-jointly-launch-china-europe-international-exchange

8 https://www.yicaiglobal.com/news/china-germany-agree-on-shanghai-deutsche-stock-connect

program nor the D-Share offerings ever materialized, however, with only one company, Qingdao Haier, having issued D-Shares before purchasing back sixty percent of the offering due to lack of demand.[9]

In profiling the risk exposure of the FSE to Chinese "bad actor" enterprises, this report draws from three official sanctions lists: the list of "Communist Chinese Military Companies" administered by the U.S. Department of Defense; the "Entity List" administered by the Bureau of Industry and Security (BIS) under the U.S. Department of Commerce; and the Uyghur Slave Labor List compiled by the Australian Strategic Policy Institute (ASPI). The ASPI List, which identifies companies using forced Uyghur labor in their supply chains, has gained additional importance in the wake of the recent genocide designation by both the current and former U.S. Secretaries of State, as well as the sitting U.S. Secretary of the Treasury, in describing China's brutal repression of its Uyghur and other ethnic minorities.[10]

Figure 1: "Bad Actor" Companies Listed on the Frankfurt Exchange

Entity Name	Frankfurt Stock Exchange Ticker	U.S. Department of Defense Communist Chinese Military Company (CCMC)	U.S. Department of Commerce BIS Entity List	ASPI Uyghur Slave Labor List
China General Nuclear Power Co. (CGNPC)	94C	X	X	
China Communications Construction Company, Ltd. (CCCC)	CYY	X	X	
Xiaomi Corp.	3CP	X		X
Semiconductor Manufacturing International Corp. (SMIC)	MKN 2	X	X	
China Mobile	CTM	X		
ZTE Corp.	FZM	X		X
AviChina Industry and Technology*	AVT	X		
CSSC (Hong Kong) Shipping Co. Ltd.*	3LL	X	X	

Note: Asterisk denotes a subsidiary of a designated "bad actor" company

While lax listing standards in the FSE open market (a problem that is admittedly not unique to the FSE) provide relatively easy access to western capital for Chinese corporate "bad actors," Chinese companies traded in Frankfurt and present in the retirement and investment portfolios of German retail investors are not restricted to those listed on the exchange. In addition, Exchange-Traded Funds (ETFs) that track global indices, several of which contain Chinese corporate human rights and national security abusers, are traded on the Xetra. In this manner, via index inclusion, "bad actor" constituents of these indices gain access to the liquidity and capital of German and European markets via a kind of "back door." This effectively magnifies the risk exposure enabled by the FSE several fold.

9 https://www.smartkarma.com/insights/haier-smart-home-forgotten-d-shares-equal-to-h-shares-creates-a-minimum-50-return-opportunity

10 https://www.nytimes.com/2021/01/19/us/politics/trump-china-xinjiang.html

Figure 2: Major Index Exposure of "Bad Actor" Companies

Entity Name	Frankfurt Stock Exchange Ticker	MSCI Emerging Markets Index	MSCI All Country World Index	FTSE Emerging Index	FTSE All World Index
China General Nuclear Power Co. (CGNPC)	94C	X	X	X	X
China Communications Construction Company, Ltd. (CCCC)	CYY	X	X		
Xiaomi Corp.	3CP	X	X		
Semiconductor Manufacturing International Corp. (SMIC)	MKN 2	X	X	X	X
China Mobile	CTM	X	X	X	X
ZTE Corp.	FZM FZMA (ADR)	X	X	X	X
AviChina Industry and Technology*	AVT	X			
CSSC Offshore and Marine Engineering Co. (COMEC)*	GSZ			X	X

Note: Asterisk denotes a subsidiary of a designated "bad actor" company

CHRONOLOGY OF RECENT CAPITAL MARKETS DEVELOPMENTS IN THE UNITED STATES

Since July 2018, U.S. policy-makers have been increasingly focused on the risks described above. These have not only included the national security and human rights track records of certain publicly traded Chinese companies, but also the non-transparent and/or unethical business practices employed and the refusal to open their books to U.S. auditing oversight, as required by U.S. securities laws.

Most notably, this attention led to the unanimously enacted legislation, the "Holding Foreign Companies Accountable Act" (which requires the delisting of certain Chinese companies that fail to allow a review of their audits by the Public Company Accounting Oversight Board over a three-year period) and Executive Order 13959, which prohibits outright U.S. investors from holding securities of entities linked to the Chinese military. In some circumstances, even Chinese companies not explicitly subject to U.S. sanctions are, at this juncture, experiencing an elevated level of scrutiny for their potential to be targeted by U.S. policy-makers on similar grounds. The kinds of companies being targeted include those that are implicated by controversial policies, such as military-civil fusion and state surveillance. To date, this has not been the case in Europe.

The U.S. government has, since March 2019, made some critically important strides in remedying these concerns, including:

— stopping the introduction of Chinese corporate "bad actors" into the investment portfolios of some 6 million federal employees (including military personnel) participating in the Federal Thrift Savings Plan (the retirement system of federal government employees);

— taking a similar action vis-à-vis the federally administered Railroad Retirement Board, whereby a public correspondence was issued to them by the former National Security Advisor and the former Director of the National Economic Council during the previous Administration calling on the Board to divest its fund from all Chinese companies for reasons of investor protection, national security and human rights concerns;

— tasking the Presidential Working Group on Financial Markets to issue a report on Chinese corporate non-compliance with federal securities laws (notable the absence of PCAOB audits); and

— most importantly, issuing Executive Order 13959 (see Appendix 1) in November 2020, which ultimately prohibits any American investors worldwide from holding the securities of "Communist Chinese Military Companies" (CCMCs), as designated by the U.S. Department of Defense.

The key provisions of this Executive Order are supported on a bipartisan basis by the Congress and are consistent with the investor protection impetus of the unanimously passed "Holding Foreign Companies Accountable Act" of 2020. The key provisions of EO 13959 include:

— that any majority-owned subsidiaries of these CCMCs be automatically placed on the OFAC list by the U.S. Treasury Department;

— that other subsidiaries of these CCMCs, irrespective of the percentage ownership, can be added to the U.S. Defense Department's list (and, therefore, the OFAC List) by the Pentagon at any time;

— that any CCMCs present in index funds (especially ETFs) are included in this divestment requirement;

— that, effective November 11, 2021, all U.S. investors worldwide are prohibited from holding the securities of the CCMCs on the Pentagon list; and

— that the Treasury Department's OFAC List should mirror the Defense Department's list (the current methodology for adding companies to this list, which is governed by Section 1237 of the National Defense Authorization Act (NDAA) of 1999, is soon to be enhanced by Section 1260 of the National Defense Authorization Act of 2021).

As of this writing, and despite E.O. 13959, none of the subsidiaries of the 44 currently identified CCMCs appear on either the OFAC list or the Pentagon list. That may soon change, however, as the Biden Administration is reportedly reviewing as many as a thousand or more such subsidiaries.

KNOCK-ON EFFECTS: CHINA – EU INVESTMENT AGREEMENT AND IMPLICATIONS FOR GLOBAL CAPITAL MARKETS

These relatively new and unprecedented U.S. capital markets sanctions being imposed on Chinese public companies have profound implications for both the global investor community as well as European exchanges and regulators. For example, the subsequent delisting of China's three largest telecom companies from the New York Stock Exchange (NYSE) is an historic event in the global financial domain and a result of the first-time use of capital markets sanctions by the United States. The implications for Europe were soon apparent.

Following the notification of the delisting of China Mobile, China Unicom, and China Telecom from the NYSE in January, the London Stock Exchange (LSE) announced its decision to begin delisting proceedings for the same stocks, which had been admitted to the LSE on the basis of their NYSE primary listing. The largest global index providers (including MSCI, FTSE Russell, NASDAQ, and S&P Dow Jones) similarly began removing the securities of select Chinese companies identified in Executive Order 13959 from their major benchmarks, almost all of which are tracked by ETFs traded in Frankfurt.

China's and Wall Street's hope that the Biden Administration would adopt a more lenient posture on the use of capital markets penalties and safeguards – evidenced by China Mobile, China Unicom, and China Telecom each sending letters to the Board of the NYSE within hours of the inauguration of President Biden asking for reconsideration of their listing status – has proved elusive thus far.[11] Indeed, preliminary evidence suggests that Biden Administration officials may not wish to blithely sacrifice this major new source of American leverage over China which, for example, could prove a game-changer for the global human rights community.

This was evident even prior to Executive Order 13939. For example, the "Holding Foreign Companies Accountable Act" of May 2020 and NASDAQ's proposed "Restricted Market" Listing Rules involving increased audit and reporting requirements for Chinese companies prompted discernible changes in the behavior of Chinese companies, with 2020 seeing a record number of secondary listings floated in Hong Kong and Shanghai.

As a result of the circumstances described above, European market players and regulators are at risk of being caught in the middle of U.S.-China tensions playing out in the capital markets for the first time. Pressure from the U.S., for example, could cause major exchanges, such as Frankfurt and London (not to mention the biggest alternative, Hong Kong), to emerge as destinations for Chinese companies seeking to maintain access to overseas dollar and euro financing. While some in Europe may view this to be a good thing, from the point of view of drawing away business from the United States, it is likely to have unwanted ramifications, including new, intense pressure from Beijing that leverages Europe's desire to attract this business to secure an EU commitment to prohibit the use of capital markets sanctions against Chinese enterprises listed and traded on European exchanges.

Indeed, Beijing already appears to have such a strategy underway, based upon the suspicious language included in the December 2020 "Agreement in Principle" between the EU and China. Though the full text of the Agreement has yet to be made public, the preliminary "Agreement in Principle" contains a key

11 https://asia.nikkei.com/Business/Markets/Chinese-telcos-test-Biden-on-Day-One-with-NYSE-listing-plea

clause: "the Parties commit not to discriminate (for example, not to impose foreign investment bans, joint venture requirements or nationality requirements) across sectors."[12]

Interestingly, the phase "investment bans" was often used by the media and official U.S. documents to describe the capital markets sanctions embodied in Executive Order 13959. In short, there is an excellent chance that Beijing is trying to forestall – and ultimately eliminate for the term of the official agreement – the ability of European signatories to restrict the access of Chinese public companies to European exchanges and investor capital, whether for reasons of human rights, national security or even, potentially, new concerns with regard to investor protection.

This type of "sleight of hand" on the part of Beijing's negotiators may have been the impetus behind stampeding a preliminary Agreement through the EU by the end of last year – after it languished for some seven years – all right in the window of the American capital markets counteroffensive.

CONCLUSION AND RECOMMENDATIONS

This new front in the U.S.-China struggle will almost inevitably have significant and far-reaching repercussions for European markets and exchanges. Tens of trillions of dollars of funds under management are implicated by the U.S. capital markets, which are roughly the size of the rest of the world's combined.

If European countries choose not to address this massive new issue area, they face a future in which tens of millions of European retail investors become increasingly exposed to the unconventional risks described above, while simultaneously helping fund behavior that runs counter to their fundamental values, such as genocide in Xinjiang and the development of China's "surveillance state" at home and abroad. Policy and regulatory measures, in line with those already taken by the United States, such as select investment bans and required divestment, would be prudent, even visionary.

In the United States, resistance to "business as usual" vis-à-vis China's activities in the capital markets has included allegations that the interests of Beijing and Wall Street fund managers and investment banks were taking precedence over the protection of American retail investors, fundamental values and national security. If German and European investors learn that their investment portfolios and retirement funds are helping finance the malevolent agenda of the Chinese Communist Party, these same accusations may well be directed at European regulators, exchanges, and their respective governments.

12 https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2541

APPENDIX: RISK PROFILES OF SELECT CHINESE NATIONAL SECURITY OR HUMAN RIGHTS ABUSERS TRADED ON THE FRANKFURT STOCK EXCHANGE

AVICHINA INDUSTRY & TECHNOLOGY CO., LTD. (H)

XFRA: AVT

AVIC INTERNATIONAL HOLDING (HK) LTD.

XFRA: CTQ
Affiliated Entity: Aviation Industry Corporation of China (AVIC)

AviChina is the "listing platform" for the Aviation Industry Corporation of China (AVIC) aircraft manufacturing business. AVIC and its subsidiaries develop and produce a range of aircraft (e.g., fighters, trainers, and helicopters), unmanned aircraft systems (UAS), and airborne weapons for the People's Liberation Army Air Force (PLAAF), People's Liberation Army Naval Air Force (PLANAF), and People's Liberation Army Rocket Force (PLARF).

— AVIC's airborne weapons and equipment include the Wing Loong (Yilong/Pterodactyl) family of unmanned aerial vehicles (UAVs), which have the operational capability to reach all of the South China Sea from any Eastern Theater Command drone base and all of the East China Sea from any Southern Theater Command drone base.

— AVIC also produces an export variant of the ship-launched YJ-12 (YingJi/Eagle Strike) anti-ship missiles carried by an array of bombers, fighter jets, and destroyers. The YJ-12B has been deployed in the South China Sea and has the capability to strike vessels within 295 nautical miles, including U.S. aircraft carriers.

— AVIC and its subsidiaries have been sanctioned on five separate occasions by the U.S. for proliferation activities that played a key role in enabling Iran to develop its missile capabilities.

- August 1993: Sanctioned for violating the Arms Export Control Act and the Export Administration Act in proliferating missile technology to Pakistan.
- May 2002: Sanctioned for transferring cruise missile components to Iran in violation of the 2000 Iran Nonproliferation Act.
- December 2004: Sanctioned for transferring equipment or technology in violation of the Iran Nonproliferation Act.
- December 2005: Sanctioned for transferring equipment or technology in violation of the Iran Nonproliferation Act.
- December 2006: Sanctioned by the U.S. for transferring equipment or technology in violation of the expanded Iran, North Korea, and Syria Nonproliferation Act.

— AVIC has 26 publicly listed subsidiaries, listed in Hong Kong, Shenzhen, and Shanghai.

— AviChina Industry & Technology Ltd. and AVIC International Holding Limited are listed on the FSE open market under tickers AVT and CTQ, respectively. AviChina Industry & Technology is included in several major indices, including the MSCI Emerging Markets, MSCI All Country World , FTSE Emerging, and FTSE All-World, all of which are tracked by ETFs traded on the FSE.

CHINA MOBILE COMMUNICATIONS GROUP (CHINA MOBILE)

XFRA: CTM
China Mobile considers maritime coverage a top priority and has launched over 15 base stations to provides telecommunications services to the illegally claimed Paracel and Spratly Islands in the South China Sea. These include the following:

- March 2003: China Mobile's Hainan branch established a mobile communications base station on Woody Island in the Paracels. There is also a China Mobile store located on Woody Island.
- December 2007: Base stations were established on Pattle Island and Duncan Island, both in the Paracels.
- January 2008: Three more base stations were established in the Paracels, on Triton Island, Money Island, and Lincoln Island.
- May 2009: China Mobile's first 3G TD base station was established on Woody Island, markedly improving PLA communications across the Paracels.
- May 2010: Fiery Cross base station was established, followed soon after by new base stations across the Spratlys on Cuateron (Huayang) Reef, Hughes (Dongmen) Reef, Subi (Zhubi) Reef, Gavin (South Smoke) Reef, Johnson (Chigua) Reef, and Mischief (Meiji) Reef.
- April 2013: China Mobile's first 4G base station was established in the Paracels.
- February 2018: China Mobile signed a framework agreement with the PLA Navy (PLAN) South China Fleet to upgrade 4G coverage in the Paracels and Spratlys with PLAN support and resources. China Mobile reportedly intended at the time to build additional telecommunication base stations and infrastructure to support its operations.

— In May 2019, the U.S. Federal Communications Commission (FCC) denied China Mobile International's Section 214 application to provide international telecommunications services between the U.S. and foreign destinations. The decision was made after an extensive review by relevant Executive Branch agencies, which examined potential national security, law enforcement, foreign policy, and trade policy concerns, concluding that the application "raises substantial national security and law enforcement risks" due to "several factors related to China Mobile USA's ownership and control by the Chinese government."

— The Chinese government's oppressive internet surveillance and censorship system is implemented with the full cooperation of China Mobile, China Telecom, and China Unicom. The communications blackout in Xinjiang during the July 2009 Urumqi riots was carried out through the suspension of the carriers' Urumqi branch phone services, including long-distance calling and broadband Internet services in the region.

- China Mobile is listed on the FSE open market under the ticker CTM. China Mobile is included in major indices, including MSCI Emerging Markets, MSCI All Country World, FTSE Emerging, and FTSE All-World, all of which are tracked by ETFs traded on the FSE.

CSSC (HONG KONG) SHIPPING CO., LTD.

XFRA: 3LL

CSSC OFFSHORE AND MARINE ENGINEERING (GROUP) CO., LTD. (COMEC)

XFRA: GSZ
Affiliated Entity: China State Shipbuilding Corporation (CSSC)

CSSC (Hong Kong) Shipping Co., Ltd. and CSSC Offshore and Marine Engineering (Group) Co., Ltd. (COMEC) are direct subsidiaries of Chinese military contractor China State Shipbuilding Corporation (CSSC), which has developed and built several advanced weapons systems for the People's Liberation Army Navy (PLAN), and is heavily involved in militarization initiatives in the South China Sea.

- In May 2014, China Shipbuilding's Number 9 Design & Research Institute, a subsidiary of China State Shipbuilding Corporation (CSSC), released plans on its website to build an artificial island, an airstrip complex, and a possible military base at the Johnson South Reef. The plans have since been taken down.[13]

- In December 2015, under a People's Liberation Army Navy contract, state-owned China State Shipbuilding Corporation (CSSC) announced that it would begin the construction of an underwater observation system coined the "Underwater Great Wall." The massive underwater surveillance system will be built in the South China Sea and will feature a network of ship and underwater subsurface sensors enabling the tracking and mapping of approaching vessels and entities, both above and below the water's surface. The project provides a significant tactical advantage for China's People's Liberation Army Navy (PLAN) in the disputed and increasingly tense region that Beijing is actively militarizing.[14]

- CSSC (Hong Kong) Shipping Co., Ltd. is listed on the FSE open market under ticker 3LL, and CSSC Offshore and Marine Engineering (COMEC) is listed in the open market under GSZ. CSSC Offshore and Marine Engineering (COMEC) is also included in FTSE Emerging Market Index and the FTSE All-World Index, which both trade on the FSE through ETFs.

13 https://www.popsci.com/chinese-shipyard-looks-build-giant-floating-islands/

14 ttps://www.popsci.com/chinese-shipyard-looks-build-giant-floating-islands/

ZHONGXING TELECOMMUNICATIONS EQUIPMENT CORP. (ZTE)

XFRA: ZFM (H), ZFMA (ADR)

According to a report by the Australian Strategic Policy Initiative (ASPI), at least three Chinese manufacturers known to be using Uighur slave labor are suppliers to ZTE. These include O-Film Technology Co. Ltd., Hubei Yihong Precision Manufacturing Co. Ltd., and Sichuan Mianyang Jingweida Technology Co. Ltd. Thousands of Uighurs have been forcibly transferred from Xinjiang to these companies' various factories, located throughout mainland China.

— ZTE has also reportedly engaged in economic and trade activities in sanctioned states and in violation of international laws and agreements, including:

- ZTE reportedly provided U.S.-origin components to Iranian telecommunications companies from 2010 to 2016 through affiliated companies, including Tehran-based subsidiary ZTE Parisian, without the prior authorization of or export license from the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC).[15]
- ZTE procured U.S.-origin components through a U.S. subsidiary, ZTE USA, and improperly transferred the components from its facilities in China to North Korea's state-owned Korea Posts and Telecommunications in February 2010 and June 2015 in violation of the U.S. embargo against North Korea and the U.S. Department of Commerce's Export Administration Regulations (EAR).[16]
- North Korea's Ministry of Post and Telecommunications (MPT) reportedly imports cheap ZTE (and Huawei) phones, including the F160 bar phone, T95 bar phone, and E850 touch screen phone.[17]
- In May 2017, ZTE was reported to have violated both its corporate probation and U.S. Defense Acquisition Regulations System ban on Chinese military electronics, providing telecommunications equipment to the U.S. Department of Defense and Department of Homeland Security by subcontracting through an undisclosed U.S. contractor.

— ZTE has an extensive R&D program and provides engineering training to PLA personnel through educational partnerships with leading technical colleges. These include:

- A school-enterprise partnership with Changsha Vocational and Technical College (former Hunan Post and Telecommunication College), which serves as the communications training base for the PLA Hunan Reserve Infantry Division;[18] and
- A school-enterprise partnership with the Nanjing College of Information Technology, where the PLA Institute of Technology (PLA University of Science and Technology) training base is located and where ZTE has an authorized training center.[19]

15 https://www.justice.gov/opa/press-release/file/946281/download

16 https://www.bis.doc.gov/index.php/forms-documents/about-bis/newsroom/1658-zte-final-pcl/file

17 http://docplayer.net/27044613-Cell-phones-in-north-korea-has-north-korea-entered-the-telecommunications-revolution.html

18 http://changsha.caiep.net/changsha_wenjiaodanwei/content.php?id=59787

19 http://campus.61hr.com/SchoolPubInfo.aspx?id=552

- The U.S. General Services Administration released an interim rule amending the Federal Acquisition Regulation (FAR) pursuant to the FY19 National Defense Authorization Act (NDAA) on August 7, 2019, prohibiting government agencies from procuring telecommunications and video surveillance services or equipment from ZTE (or any subsidiary or affiliate). The prohibition became effective on August 13, 2019. A broader ban applying to contracts with companies using any equipment or services provided by ZTE took effect in August 2020.[20]

— Both H-Shares and sponsored ADRs of ZTE trade on the FSE's open market under tickers FZMA and FZM, respectively. ZTE is also included in several major indices, including the MSCI Emerging Markets, the MSCI All Country World, FTSE Emerging, and FTSE All-World, all of which are tracked by ETFs traded on the FSE.

ABOUT AUTHORS

Roger W. Robinson Jr. is the Chairman and Co-Founder of the Prague Security Studies Institute, which was established in early 2002. In 1982, Mr. Robinson was appointed Senior Director of International Economic Affairs at the White House National Security Council under President Reagan, where, according to President Reagan, he was the "architect" of the secret economic and financial strategy to hasten the demise of the Soviet Union. He later served as Chairman of the Congressional U.S.-China Economic and Security Review Commission in the early 2000s for the bulk of his five-year term.

Mr. Robinson has concentrated on the nexus of national security and global finance for over 40 years and is one of the world's foremost experts in countering the economic and financial warfare activities of China and Russia. Mr. Robinson was also the first to publicly surface extensive research findings on the subject of today's talk on the national security and human rights dimensions of China's presence in the U.S. and Western capital markets.

Zack Kramer has been a Research Fellow for PSSI's Economic and Financial Threat Program since 2018, and is also an International Relations PhD Candidate and teaching assistant at Charles University, with a focus on international political economy and economic security.

20 https://www.federalregister.gov/documents/2020/08/27/2020-18772/federal-acquisition-regulation-prohibition-on-contracting-with-entities-using-certain

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