Prague Security Studies Institute
Economic & Financial Threat Program
PSSI Report

FRANKFURT STOCK EXCHANGE REPORT: **KEY FINDINGS**

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The EU recently imposed sanctions on four individuals and one commercial entity accused of human rights abuses against the Uyghur population in Xinjiang, the first such sanctions since Tiananmen Square in 1989. PSSI's latest research report on China's corporate presence on the Frankfurt Stock Exchange (FSE) reveals that dozens of US-sanctioned and other Chinese corporate "bad actors'' are traded on the exchange, including those involved in human rights and national security abuses. A link to the full report, entitled "The Security and Human Rights Implications of Chinese Corporate 'Bad Actors' Traded on the Frankfurt Stock Exchange", can be found here.

FINDINGS:

— Hundreds of millions of unwitting retail investors worldwide are currently holding in their retirement accounts and investment portfolios the publicly traded securities (i.e., stocks and bonds) of Chinese "bad actor" companies.

— Dozens of these are currently traded on the FSE, one of Europe's largest capital market, resulting in German and other European retail investors unwittingly helping fund their malign activities.

— These corporate "bad actors" include entities that have been officially sanctioned by the U.S. and other governments for egregious human rights and/or national security abuses.

— Other corporate offenses include equipping mass detention camps in Xinjiang and aiding and abetting genocide against the Uyghurs and other religious minorities, intellectual property theft (particularly among developers of emerging technologies with dual-use military capability), espionage and cyberattacks, advanced weapons manufacturers for the People's Liberation Army (PLA), building and militarizing illegal islands in the South China Sea, weapons proliferators to such countries as Iran and North Korea, environmental degradation and the construction of an oppressive "surveillance state".

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

— There is a Chinese effort to protect its "bad actor" companies on European exchanges through the insertion of language in the EU-China "Comprehensive Agreement on Investment" (CAI) that would, in effect, prohibit the delisting and expulsion of such companies by European regulatory authorities, arguing that such actions would constitute "discrimination "against Chinese enterprises.

— The recent trajectory of U.S. policy and regulatory actions targeting the securities of certain of these companies further illustrates the potential risk exposure facing European investors.

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	

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

* Asterisk denotes a subsidiary of a designated "bad actor" company

RECOMMENDATIONS

- The adoption of policy and regulatory measures, consistent with those already implemented by the United States – including select investment bans, capital markets sanctions, compulsory divestment, government audits and new “material risk” disclosure requirements, would be prudent.

- The absence of appropriate EU and member state action to excise Chinese corporate human rights and national security abusers from European retirement and investment portfolios would likely lead to a public perception that Europe is more interested in protecting relations with Beijing and the fees of European fund managers and investment banks than protecting the Continent’s fundamental values, security interests and retail investors.

Pohořelec 149/6, 118 00 Prague 1, Czech Republic
Inquiries at pssi@pssi.cz