

Written Statement for the Record

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In Partnership with Coalition for a Prosperous America

before the Congressional-Executive Commission on China

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“Corporate Complicity: Subsidizing the PRC’s Human Rights Violations”

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Introduction

Mr. Chairman, I am grateful for this opportunity to submit the statement before you today as the former Chairman of the U.S.-China Economic and Security Review Commission, Chairman and Co-founder of the Prague Security Studies Institute, and an advisor to the Coalition for a Prosperous America. As a former international banker, a senior White House official and founder of a successful business and think tank, it is a privilege to bring my over forty-five years of experience in national security and global finance to the table in seeking to enrich these important proceedings.

The topic of this hearing is very timely, as the CCP's economic aggression towards our nation has been a driving force — and funding engine — for most other forms of its malign behavior and hostile actions. Without sufficient economic and financial resources and influence from Western businesses, the CCP would be unable to accomplish their overarching strategic goals and inflict more immediate harm to the human rights and wellbeing of all people groups, but notably those living under the oppressive regime of the CCP.

We are talking about multi-faceted economic aggression here, going well beyond traditional trade and commercial topics. For the most part, the Committee is well aware of the various iterations of China's economic aggression, and they need not be repeated here. That said, the CCP's economic and financial warfighting is, in no small part, dedicated to ensuring that it continues to attract massive, annual dollar and other financial flows from the U.S. and allied capital markets.

My testimony will focus on this last point, as absent China's continued, and largely unfettered, access to the U.S. debt and equity markets alone, most, if not all, of their economic predations globally would be severely hobbled, if not made impossible. The Commission would likely benefit from an improved understanding of the inordinate financial risks facing American investors associated with holding Chinese corporate securities and sovereign bonds, the monumental national security and human rights concerns being funded and/or facilitated by these CCP corporate proxies and potential policy solutions that, in my view, should be enacted forthwith.

Potential Policy Solutions

Rather than postponing a discussion of such potential policy solutions to later in this testimony, I believe there is merit to outlining them at the outset.

Chinese CCP-controlled companies should be delisted and de-registered from U.S. exchanges (including the Over-the-Counter market) — and excised from U.S. indices, and the investment products benchmarked against these indices — as soon as practical (i.e., in no more than 180 days) and American persons worldwide should be prohibited by law from holding these Chinese corporate securities, if these companies are found to be:

1. Non-compliant with any U.S. federal securities laws and regulations;
2. Sanctioned or blacklisted by any agency of the U.S. government for actions counter to U.S. security or foreign policy interests and/or human rights violations or abuses;
3. Refusing to permit American shareholders from holding the actual shares of Chinese publicly traded companies via scandalous, "shell company" substitutes like Variable Interest Entities (VIEs) -- domiciled in the Cayman Islands or other off-shore locations – rendering American investors without adequate legal protections, minority shareholder rights or actual Chinese shareholdings;
4. Moving the shares of non-U.S. regulated, non-transparent Chinese companies from domestic Chinese exchanges directly into U.S. indices and investment products benchmarked against them, notably thousands of so-called "A share" companies;
5. Associated in any way with the PLA or PLAN, and/or CCP security or intelligence services;
6. Reliably reported to be engaged in human rights violations, such as aiding and abetting genocide, trafficking in forced labor, equipping concentration camps and helping build Beijing's surveillance state;
7. Helping arm, equip, or otherwise provide economic support for, the malevolent activities of adversaries of the U.S., such as Russia, Iran, and North Korea;
8. Participating in activities that disrupt the established, rules-based international order, such as building and militarizing illegal islands in the South China Sea; impeding freedom of navigation in international waters and violating international environmental standards;
9. Utilizing illegal means to manipulate international organizations, data, and groups to advance the CCP's global agenda;
10. Not subject to the rule of law;
11. Failing to safeguard minority shareholder rights;

12. Not engaged in adequate material risk disclosure and standard corporate governance practices;
13. Subject to Article 7 of China's National Intelligence Law which requires, on demand of the CCP, the weaponization of Chinese companies for espionage, military activities, and other strategic purposes; and
14. Permitting the establishment of Chinese Communist Party cells in their senior management structures.

Moreover, the issuance of dollar-denominated Chinese sovereign bonds (which I term "Anti-Liberty CCP Bonds"), which provides billions of dollars annually in discretionary cash directly to the Communist Party, should be prohibited by law.

How Does China View the Capital Markets Landscape and Define Success?

- China experiences success when greatly expanding its access to hard currency financing and income, particularly via the sale of securities of CCP-controlled enterprises in Western capital markets and as a sovereign borrower.
- The CCP likely has no better American friend than Wall Street firms in protecting it from being meaningfully penalized by the U.S. government for its malevolent behavior in the form of capital markets sanctions and restrictions — arguably Beijing's worse fear. Maintaining this formidable, “elite-capture” shield against financial decoupling by the U.S. is essential and constitutes a major victory to date for the CCP.
- Having some 5,000 Chinese companies traded on U.S. exchanges (including as many as 4,000 "A-share" companies listed only on domestic Chinese exchanges) represents a highly successful "force-multiplier" in the funding of the CCP to the tune of trillions of dollars over the past decade or two.
- Listing — or even just trading — on U.S. exchanges imbues thousands of Chinese CCP-controlled enterprises with the equivalent of an American “Good Housekeeping Seal of Approval”, stimulating other global exchanges to grant such market entry. Moreover, it sends a U.S. signal that could well end up relaxing strict regulatory compliance in allied capital markets and probably giving their regulators and asset managers a "green light" to add the securities of “bad actor” Chinese companies to the investment portfolios of millions of their retail investors.

As for metrics, the publicly available numbers tell part of the tale and, hence, China's “success” in our markets can be measured to a certain extent. It is also important to track the progress of BlackRock, J.P. Morgan Chase, and others in their pursuit of at least one of their “holy grails” — selling wealth management, mutual funds, ETFs and other investment products and services directly to Chinese retail and institutional investors. The CCP has mastered the technique of moving the goal lines of such Wall Street “holy grails” closer to realization during periods of uncertainty and Chinese funding shortfalls.

The CCP counts on the Treasury Department, the Securities and Exchange Commission, the National Economic Council and, to a lesser extent, the Commerce Department as well as some on the House Financial Services and Senate Banking Committees to, in effect (and perhaps unknowingly), take Wall Street's side (read the CCP's side) during policy debates inside and outside of the Executive Branch and shape the “fine print” regarding the scope and substance of sanctions, enforcement actions, waivers and the deliberate creation of loopholes.

Other factors concerning how China defines its success in the capital markets include:

- Acceptance of Chinese sovereign debt in global capital markets via the inclusion and growth of Chinese bonds in major global bond indexes (e.g., FTSE World Government Bank Index, JP Morgan Global Aggregate Bond Index, Bloomberg Barclays Global Aggregate Index), and the volume and size of China Interbank Bond Market.
- Capital formation with minimal loss of shareholder voting rights via market capitalization of Chinese companies versus shareholder voting rights granted to foreigners.
- Development of a modern financial services industry, without creating dependence on Western companies via progress in implementing eight main tasks of Fintech Development Plan for 2022-2025; growth of wealth management AUM; shift from traditional retail holdings of individual securities, real estate, and bank deposits to mutual funds and other pooled investment vehicles; and M&A activity in Chinese investment banks.
- Creation of a NASDAQ-style capital markets system that can support a leading technology via company listings and market capitalization of ChiNext (Shenzhen Stock Exchange) and STAR Market (Shanghai Stock Exchange), and the number of large, high-profile IPOs in mainland markets instead of U.S. and Europe.
- Stability of major financial institutions, including China's Big Four publicly traded banks, via their total assets and market capitalization.

China's Strategy and Financial Market Ambitions

In my view, China likely must achieve annual economic growth of 5% or more to avoid slow-motion economic and financial implosion. Last year, China grew by some 2% (as the 3% figure is regarded by many experts as deliberately exaggerated). The country's real estate disaster, a massive debt burden, relatively low consumer spending as a percent of GDP and a host of other indicators makes clear that China is now somewhat adrift – seeking to cobble together a new growth model given that their traditional model of infrastructure development and debt stimulus has finally hit the wall.

In short, China must access hundreds of billions of dollars annually to remain a going concern over time (read continued CCP rule). There is no “going elsewhere” for such large amounts of capital when the U.S. controls as much as 60% or more of the world's dollar liquidity, the world's reserve currency and capital markets that are nearly the size of the rest of the world's combined. Capital markets sanctions are Beijing's single greatest non-military fear because – like the Soviet Union

before them – the CCP knows that it is predominantly about the money (read access to trillions of dollars of American funds under management).

Other factors concerning how China views the capital markets include:

- Beijing taps global capital markets to finance enhanced economic development and growth.
- China sees capital markets development as necessary to help blunt U.S. financial tools, including sanctions regimes and potential dollar weaponization against the PRC.
- China does not view the financial services industry as an industry that should be developed for its own sake; they are not pursuing financialization of their economy in the style of the U.S. and U.K.
- China is not interested in creating an independent financial services constituency that could challenge the existing power structure (witness the train of events following the cancellation of the Ant Financial IPO on the eve of its initial public offering).

China's strategy is to use its command economy (at least when it comes to finance and the markets) to manipulate the global financial system to serve its funding, lobbying, and other strategic interests. Given the CCP's total control over Hong Kong, this task has been made considerably easier. The large-scale inclusion of CCP-controlled companies in the U.S. and allied capital markets – in terms of both listing and trading – is a major “validator” for China. The spikes and surges in bilateral tensions have flown right over China's capital markets penetration activities like storm clouds that pass over and do no harm. This fact alone constitutes quite an amazing success for the CCP.

Not that long ago, at a time when there were some 1,260 Chinese companies on the Commerce Department's Entity List for egregious corporate national security and human rights abuses, of that number only 16 were listed on the Treasury Department's OFAC List (i.e., the NS-CMIC List), impeding their ability to raise funds on the U.S. capital markets. Beijing has also, thus far, escaped any “sanctions harmonization” efforts in the Executive Branch, whereby a U.S.-sanctioned Chinese company by any relevant government agency would automatically cost the company access to U.S. exchanges and the ability of American persons to hold its securities. These are but examples of how China achieves its key strategic objectives and ambitions – at U.S. expense.

With respect to the types of Chinese CCP-controlled enterprises which are presently listed or traded on U.S. exchanges, it is not pretty. Examples include: Chinese companies that are equipping concentration camps in Xinjiang; trafficking in forced labor; aiding and abetting genocide; constructing the “surveillance state”; militarizing China's illegal islands in the South China Sea; building advanced weapons for the PLA, including components for its last two aircraft carriers and first hypersonic glide vehicle; providing lethal and non-lethal aid to Russia in its war of aggression against Ukraine; and the list goes on. Indeed, many of the Chinese companies traded in the U.S. capital markets are presently under various U.S. sanctions regimes. It is an epic understatement to say that these malign Chinese corporate activities are impacting negatively on democratic societies and economic competitiveness, especially our own.

As mentioned above, China primarily relies on its perceived allies in the Executive Branch to do the heavy lifting on its behalf, with the priority being resisting, diluting, and otherwise eviscerating any capital markets sanctions directed its way. Whether it involves a waiver of federal securities laws via, for example, the Public Company Accounting Oversight Board's MOU with the China Securities Regulatory Commission in May 2013, or waiving enforcement of President Biden's Executive Order 14032, China has been able to largely count on the cooperation of the Treasury Department, the Securities and Exchange Commission, the National Economic Council and other senior Executive Branch decision-makers in the financial space to calm the waters and discretely build the loopholes.

Most often it is a sad testament to the “revolving door” between Wall Street executives and key officials in the economic and financial agencies of government that gives rise to direct or indirect conflict of interests, particularly with regard to capital markets sanctions designed to protect our national security, fundamental values, and the fiduciary interests of U.S. retail investors. Congressional Committees with jurisdiction over this issue portfolio are likewise subject to intense Wall Street and Executive Branch lobbying or interventions that have often diluted and narrowed the legislative intentions of Committee members and staff (e.g., large-scale political donations).

The bilateral financial relationship is largely dominated by a relatively few large U.S. asset managers (e.g., Black Rock, Vanguard, State Street, etc.) and index providers (e.g., MSCI, FTSE-Russell, etc.). Firms such as Sequoia and KraneShares are also reportedly factors in maintaining a steady flow of U.S. investor capital into the coffers of the CCP.

CCP Strengths in the Capital Markets

- As the world's second largest economy perceived to be flush with cash and a potential market of 1.3 billion consumers, China has harnessed, directed and manipulated Western greed to advance its strategic aims to an unprecedented, perilous degree.
- Never in memory has this ominous level of “elite capture” within the U.S. by our foremost adversary been achieved.
- Despite the relatively near-term prospect of a shooting conflict with the United States over Taiwan, that could largely wipe out U.S. investors in Chinese securities, there appears to be no one in the Executive Branch that can answer the straightforward question: What is the total amount of U.S. investor risk exposure to some 5,000 Chinese companies traded in the U.S. capital markets, including passive investment products? This reality alone is emblematic of China's strength in dissuading the U.S. government from even questioning this massive, asymmetric financial risk to our country and its citizens, much less viewing the CCP — as many Americans do — in roughly the same league of adversary as the former Soviet Union and Nazi Germany.
- China has prospered by knowing that it largely continues to receive all of the benefits of an open, free-market U.S. economy and the rules-based international trading and financial systems, without abiding by the rules.
- Pay-offs, corruption, intimidation, covert action and extortion have been hallmarks of China's wholesale penetration of U.S. society — and the capital markets are no exception.
- At a time of growing market saturation in the U.S. and ever finer spreads, American asset managers, index providers, and other market players are fairly desperate to replicate their U.S.-based successes in the relatively virgin territory of the Chinese domestic financial system, individual's savings and still-nascent markets. China is acutely aware of these Wall Street cravings and has exploited them masterfully.
- As an authoritarian police state, China can turn on a dime when deemed necessary — witness the near overnight end of its coveted zero-Covid policy. This "command" system provides Beijing with greater agility to exploit targets of opportunity than their Western counterparts, such as cornering world markets in rare earths, cobalt, lithium, and other key resources for future economic competitiveness and global influence. Ironically, Beijing often attracts funding in the U.S. capital markets for the Chinese CCP-controlled enterprises mandated to secure these strategic objectives.
- The phenomena of "national champions" and the ability to pick winners to receive massive government subsidies, priority resources, and other competitive advantages — without any regard to corruption safeguards and other Western constraints — often permits Beijing to win strategic contracts and "buy-off" countries, regions, and even continents (e.g., Africa), sidelining the U.S. and our allies.
- China has achieved a virtual free pass — absent meaningful U.S. penalties — in its ability to collaborate with the world's most heinous regimes and has successfully forged an updated

"axis of evil" with Russia, Iran, and North Korea. To date, there has been virtually no serious sanctions for these malign activities in the U.S. capital markets.

- China has submitted an avalanche of patent applications, particularly concerning technologies which connect to the internet. State-directed efforts such as these are not just designed to unfairly enhance Chinese competitiveness, but also for the malevolent purpose of denying cutting-edge technologies to the U.S. and its allies. Worse still, China is attracting the funding to develop these technologies often from the U.S. debt and equity markets.

Other CCP market strengths include:

- A centralized regulatory regime that can enact reforms quickly inside China's relatively young capital markets industry.
 - China is enacting reforms and plans to steadily develop its capital markets with internal and external capital.
 - Beijing has focused its capital markets on boosting small and mid-sized enterprises, especially in the technology sector.
- China has room to grow, with retail investors largely untapped, compared with the relatively saturated financial industry in the U.S. and Europe.
 - It is encouraging development of a wealth management industry.

China is exacting concessions and favors from major U.S. and European financial firms in exchange for relatively limited access to its retail investment market.

CCP Weaknesses in the U.S. and Allied Capital Markets

- Not one of the roughly 5,000 Chinese companies listed or traded on U.S. exchanges is compliant with U.S. federal securities laws, including Dodd-Frank.
- Some 95% of Chinese enterprises listed on the NYSE and NASDAQ are scandalously structured as Variable Interest Entities (VIEs), involving substituting the actual shares of Chinese companies with the shares of shell company contracts in the Cayman Islands with no actual Chinese stock changing hands, no minority shareholder rights and very limited, if any, legal recourse for U.S. investors.
- China engages in little, if any, material risk disclosure, corporate governance, risk management or the rule of law — standard requirements for their American and other Western corporate counterparts. The CCP is also stepping up harassment of American and allied diligence and research firms and auditors, such as Bain and Co., the Mintz Group, Deloitte and others. The CCP is likewise shutting down Western access to traditional Chinese databases like Wind Information and Capvision and seeking to blind further U.S. asset managers, index providers and U.S. investors by criminalizing standard market diligence and

research activities by Western firms. Even the U.S. Chamber of Commerce has stated that this recent Chinese offensive against Western professional services firms "dramatically increases the uncertainties and risk of doing business in China".

- Article 7 of China's National Intelligence Law of 2017 permits the "weaponization" of all Chinese enterprises for strategic purposes, such as espionage and PLA activities, at the discretion of the CCP. This entirely negates the view that Chinese companies can be considered purely commercial, benign entities.
- The CCP has required all companies in China to establish Communist Party cells in their senior management structures, possibly including foreign-owned Chinese firms, which completely refutes the long-held argument that China possesses true "private sector" companies.
- China's real estate crisis — implicating some 30% of GDP, as much as half of the annual revenues of the provincial governments, some 40% of all bank lending and roughly 80% of the net worth of the Chinese population — remains an asymmetric risk to Western investors with little transparency on how this ticking economic bomb will be defused, if it is even possible.
- China's economic growth model of infrastructure investment and a massive accumulation of debt to stimulate demand has largely run out of gas and cannot be offset by relatively anemic consumer spending as a percent of GNP (some 50% versus more than 70% for most G-7 countries). In short, China will likely not be able to grow its way out of a debt overhang of more than 300% of GDP, putting U.S. retail investors at greater risk.
- China is a malevolent, "bad actor" country — witness its "no-limits" partnership with Russia and client state relationships with North Korea and Iran — that will likely take more aggressive actions against the U.S. strategic interests in the Pacific (e.g., the South China Sea) as well as move ahead with the forced reunification with Taiwan in the relatively near term. Accordingly, the CCP's "old friends" on Wall Street are having an increasingly difficult time justifying their large-scale risk exposure to Chinese securities, including those of U.S.-sanctioned enterprises. For over two decades, China and its U.S. financial supporters have avoided any granular policy scrutiny by the national security community, the Congress, the media and others. Hopefully, these days are rapidly coming to an end.
- Over the course of 2023 and 2024, Beijing, Wall Street and certain conflicted American government regulators will likely be subject to the introduction of bipartisan Congressional legislation designed to make it illegal to: 1) hold the securities of "U.S. adversaries" (including Chinese publicly traded companies) in the International Fund of the federal Thrift Savings Plan; 2) continue China's use of Variable Interest Entities as vehicles to list on U.S. exchanges; 3) continue including non-U.S. regulated Chinese "A share" companies in U.S. indices and the investment products benchmarked against them; 4) continue the issuance of Chinese dollar-denominated sovereign bonds, directly funding the CCP via the proceeds of these "Anti-Liberty" bonds; and 5) hold U.S.-sanctioned Chinese companies in U.S. investment portfolios.

- President Xi Jinping continues to serve as a one-man wrecking ball for the CCP, particularly vis-à-vis China's relationships with its U.S. and allied capital markets facilitators. His deep distrust and paranoia toward all things viewed to be threats to the primacy of the CCP and its hold on power will likely negate a number of measures designed by some of his more market-wise colleagues to elevate the comfort level and risk appetite of U.S. and allied investors (witness the new CCP effort to criminalize standard diligence and business information-gathering) by Western professional services companies.

Other weaknesses include:

- Reliance on dollars, euros, yen and pounds for foreign exchange reserves caused by a lack of internationalization of renminbi.
- An undeveloped corporate debt market.
- An undisciplined and erratic retail investor base.
- Overleveraged and overinvested in the real estate market.
- CCP reluctance to allow "national champions" that could one day challenge its hold on power.
- CCP unwillingness to adopt GAAP and PCAOB standards.
- An undue reliance on U.S. know-how for capital markets execution.
- A Chinese government tendency to intervene and manipulate market outcomes.
- A "low-trust" culture which pervades Chinese capital markets and the perceived and real risk of fraud.

Framework for Viewing China's Presence in the U.S. Capital Markets

- China has largely perfected leveraging U.S. and allied greed and the quest for profits, jobs, exports and market share. It will likely continue to achieve notable successes in achieving its strategic aims through the skillful employment of these and other tools of persuasion — including intimidation and extortionary practices that have a proven track record. Although Beijing occasionally goes overboard with its immense espionage campaign against the U.S. and its allies (e.g., secret police stations in major U.S. cities to round-up and/or track Chinese dissidents), it has yet to pay any material price for these malevolent undertakings in the U.S. capital markets.
- China has engaged in over two decades of economic and financial warfare against the United States with no meaningful opposition, or even an announced recognition that such warfare is underway. Multilateral institutions have been recruited and, in effect, weaponized to adopt China's brand of standards and norms, and to provide friendly cover for some of its most heinous human right abuses and national security violations. The U.S. has, to date, foolishly

underwritten this enormous tab over the course of many years with the witting, and unwitting, transfer of trillions of investment dollars from scores of millions of U.S. retail investors to the coffers of the CCP and the Party's corporate proxies.

- *In my view, it is not possible to identify a strategic-level, financial scandal of anywhere near this scale in modern history, whereby a democracy (notably our own) has engaged in the multi-trillion-dollar underwriting of an authoritarian police state (read China) bent on undermining our values and way of life, aided abetted by some fiduciarily malfeasant Wall Street firms and other fund managers, and certain conflicted U.S. government regulators at the top levels of the Treasury Department, the SEC and the National Economic Council.*

Threats to the United States

- The prospect of an upcoming U.S.-China military conflict over Taiwan (if Taiwan's DPP party wins the Presidential election early next year) is probably the greatest threat the CCP faces of being electrocuted in the U.S. capital markets — not because of Wall Street's revulsion, but a more militant, bipartisan consensus in Congress and among the American people.
- The PLA and its Navy are veritably intoxicated by the array of advanced weapon systems they have brought online, including hundreds of new surface combat ships, several classes of submarines, lasers, sophisticated cyber capabilities, hypersonic glide vehicles and missiles, rail guns and new generation ICBMs. The desire to deploy and make use of these military capabilities against U.S. and allied assets is intense and perilous. A shooting, ramming, blinding or other incident in the South China Sea or elsewhere would now likely impact China's access to U.S. capital markets for the first time.
- China's efforts to restrict further the access of professional Western market research and diligence firms seeking to gather standard, risk-related information will likely complicate its ability to attract adequate amounts of U.S. and allied capital, particularly when the Congress better understands the dimensions of the U.S. financial "free-lunch program" for the CCP described above.

Assessing the Counter-Arguments – The Prospective Costs of Financial Decoupling

- The cost to American investors of a sudden financial decoupling from China (e.g., an armed conflict with the U.S.) would likely be quite severe, but ultimately manageable.
- It appears that no U.S. officials have talked publicly (and perhaps not even privately) about the total financial risk exposure of American institutional and retail investors to thousands of Chinese corporate securities, but it is likely well over a trillion dollars and likely some multiple of that number. We just do not know. Accordingly, the U.S. appears to have done frighteningly little in the way of "national financial risk management" with respect to China

and some of the probable "downside" outcomes referenced are likely to result in serious financial losses for average Americans that could be avoided, *if the Congress acts now*, preferably on a veto-proof basis.

- A more gradual financial decoupling could mean a good deal of market volatility over a several month period, a highly workable circumstance.
- Just as the interruption and restructuring of China-based supply chains entails costs, so too does the potential loss of Chinese investment in Treasuries and the excising of thousands of unfit Chinese companies from U.S. investment portfolios.
- For China, any meaningful contraction of access to the U.S. capital markets would likely have disastrous consequences over time, given the non-convertibility of its currency and fairly desperate need for hundreds of billions of dollars annually to fuel even its diminished economic growth rates. A more serious cut-off of access to the American capital markets would likely prove the death-knell of CCP rule over a relatively short number of years, given China's massive "overhead" requirements to service its population and maintain reasonable living standards to keep the peace at home.
- The cost of doing nothing and maintaining the status quo could mean the loss of American competitiveness in a number of key technologies and industrial sectors, including those vital to 21st century security. In a very short number of years, the U.S. could likewise lose the capability to prevail in an armed struggle over Taiwan, or even the South China Sea, and could be, in effect, compelled to cede regional hegemony to the PLA and the CCP, not to mention stimulate the nuclearization of Japan, South Korea, and Australia.

Overarching Considerations

As things stand at this writing, China continues to enjoy largely unfettered access to the U.S. and allied capital markets. There are no meaningful capital markets sanctions in place on either side of the Atlantic and the CCP and its publicly traded corporate proxies continue to defy gravity – with the cooperation of Wall Street and certain conflicted official regulators – with respect to investor protection, national security concerns and corporate human rights abuses.

Even in the tunnel-vision American financial community, there should be a growing recognition that the CCP is an avowed adversary of the U.S. comparable in many ways to the former Soviet Union and Nazi Germany. The preferential treatment and massive American funding which China is presently pocketing would be far more difficult, if not unthinkable, were this new "Cold War" mindset to become official U.S. policy – a Cold War begun decades ago, and prosecuted daily, by the CCP.

Wall Street firms have publicly made clear that they will continue to engage in undisciplined "business as usual" with Chinese publicly traded companies until such scandalous market activities are made illegal. Accordingly, as stated earlier, the Congress will almost surely need to pass legal prohibitions on a range of Chinese funding and trading activities in our capital

markets. A number of specific recommendations in this regard have been cited earlier in this testimony, but include: American holdings of notorious, unregulated "A share" companies; Chinese enterprises embedded in the International Fund of the Thrift Savings Plan; the listing or trading of U.S.-sanctioned Chinese companies; continued use of near-fraudulent VIEs; the exclusion of Chinese companies not in compliance with federal securities laws; and a number of other prudent measures that we expect — and require — of other foreign participants in our markets. There is also a need for U.S. legislation that prohibits any Communist Party cells from being established in the China-based operations or joint ventures of U.S. asset managers, banks, and other financial institutions.

Finally, the leadership at BlackRock, and perhaps others on Wall Street, have exhorted American investors to triple their risk exposure to Chinese publicly traded companies from the already outrageous and perilous level that it is today. To me, this not only screams fiduciary malfeasance, but, intended or not, also reflects greed in its most calloused and irresponsible form.

Moreover, contrary to the arguments often used by these market players to justify their China-related investment decisions on our behalf, such holdings often involve considerably higher risks and lower returns than elsewhere in their investible universe. Merely one example is the Tennessee Consolidated Retirement System (TCRS). For the last 10 years TCRS has not invested in China, Russia or a host of smaller emerging countries due to the results of a screening methodology that the TN Treasury uses to evaluate nations eligible for investment in the emerging market portfolio.

Annually, the TN Treasury evaluates each investable emerging market country using a “Global Democracy Index,” developed by the Economist magazine in combination with an index of corruption called the “Corruption Perceptions Index,” created by Transparency International. Countries which score badly on the combination of corruption and democracy are eliminated as possible investment options. Tennessee has been using this screening method for more than a decade and in that time not once has China scored well enough to merit investment. Regarding returns, at the one-year mark, the Tennessee Emerging Markets Portfolio – as of Dec. 2021 – had a 7.71% return, compared to the MSCI-EM return of -2.5%. At the 5-year mark, as of Dec. of 2021, TCRS had a 10.16% compared to MSCI-EM which was 9.9% and the MSCI-EAFE (followed by the Thrift Savings Plan for the I-Fund baseline) which was only a return of 9.5%.

"A Shares" and Passive Investments not Covered by the *Holding Foreign Companies Accountable Act*

Congress, the media, and independent regulators like the SEC have recently focused on the risks posed to U.S. investors from Chinese companies directly listed on U.S. stock exchanges. While I initially welcomed this focus and encourage further action, it does not address the bulk of “bad actor” Chinese companies that are still present in American passive investment products. Their presence is in the form of nearly 4,000 A-share and H-share companies found throughout passive investment funds, such as Exchange Traded Funds (ETFs) and mutual funds and has received little or no regulatory scrutiny or fiduciary diligence. Tens of millions of Americans are

unwittingly exposed to these notorious "A-shares" in their investment portfolios and retirement accounts.

The financial industry will not lead. Congress must do so. To ensure against further American investment dollars flowing to Chinese companies that pose investor protection, national security, and human rights concerns, Congress should take the following actions:

- Pass legislation that requires index providers and asset managers to address the risks posed by A-share and H-share companies;
- Require a proper implementation of the Holding Foreign Companies Accountable Act (HFCAA) such that its December 2022 agreement with the Chinese regulatory authorities is actually enforceable, or that non-compliant Chinese companies are immediately delisted and de-registered from U.S. exchanges;
- Expand the HFCAA to cover Chinese companies traded in the United States via passive investment products, despite not being directly listed on U.S. exchanges, to ensure that ETF products traded on U.S. exchanges are PCAOB-compliant, consistent with the investor protection imperatives of the Act;
- Compel the SEC to require further disclosures and issue new rules for index providers as it pertains to oversight of proper diligence (including the security-minded and human rights-related variety) and risk management — both almost entirely missing today;
- Compel the SEC and other U.S. Government agencies to require more information for investors and fiduciaries with regard to the geographic location of companies, their industries or sectors, their linkages to foreign governments or foreign actors, the presence of companies on U.S. sanctions lists and other national security, human rights, or political risk factors;
- Require index providers to reevaluate their index inclusion criteria, which currently expose U.S. investors to material and reputational China-specific risks. and further require them to justify continued inclusion of any such risky China securities;
- Harmonize U.S. sanctions policy against Chinese companies in order to close current gaps that exist between different sanctions lists. This will assist index providers, asset managers and investors in their compliance and due diligence processes;
- Establish a new, official list of known Chinese corporate human rights abusers, so that these enterprises can be denied access to our debt and equity markets and prohibited by law from their securities being held by American persons worldwide;
- Enact a national policy to prohibit U.S. investors from investing — either here or abroad — in the securities of Chinese companies which have established CCP cells in their management and/or decision-making structure.

A-Shares in U.S. Index Funds: Just How Massive is U.S. Risk Exposure?

In May 2018, after three years of deliberation and negotiations with Chinese regulatory authorities (and considerable arm-twisting from Beijing), major index provider MSCI released a list of large-cap China A-shares to be included in the MSCI China Index, Emerging Markets (EM) Index, and All Country World Index (ACWI) beginning in June that year. The MSCI EM Index previously only included shares of Chinese companies listed in Hong Kong or the United States. As of June 2018, MSCI had over \$1.8 trillion in assets benchmarked globally to its Emerging Markets Index suite, 30.99% of which was comprised of China-based securities.

By November 2019, MSCI had increased and expanded its index exposure to mainland Chinese companies significantly by including mid-cap China A-shares and quadrupling the inclusion ratio of China A-shares in the MSCI EM Index from 5% to 20%. The total index weighting of China A-shares jumped from 0.7% to 3.3%, drawing in an estimated \$80 billion in foreign inflows to the Chinese market. As of August 2020, the overall weight of China A-shares in the MSCI EM Index had risen to 5.1%, where it currently remains.

FTSE Russell followed in MSCI's footsteps and was the second major index provider to include China A-shares in its indices. In June 2019, FTSE added 1,097 China A-shares into its FTSE Global Equity Index Series (GEIS, which covers the FTSE Emerging and All-World Indices) in the first stage of inclusion (20%), drawing an expected \$10 billion from U.S. passive investors. As of June 2020, China A-shares represented approximately 6% of the FTSE Emerging Index. Roughly 4,000 China A-shares are available to U.S. investors at this point through their inclusion in indices.

Undisclosed Risks to Investors

Index providers neglect to consider the full range of China-specific material risks to investors when determining index constituents and weighting. These include considerations of reputational risks relating to national security, export controls and sanctions regimes, human rights violations, political factors, or even full consideration of traditional environmental, social, and governance (ESG) factors.

Retail and institutional investors are exposed to a wide range of publicly traded Chinese companies involved in developing weapons systems, new, "dual-use" technologies, and building infrastructure in support of China's military modernization goals; and companies involved in facilitating the ongoing genocide of Uyghurs and other Turkic Muslims in Xinjiang, the systematic intimidation and coercive assimilation of Tibetans, and the mass surveillance and government interference in people's lives in Hong Kong. Beyond these, additional risk factors to consider include U.S. sanctions designations and any other blacklists that may signify a material reputational and financial risk to investors.

As of at least June 2022, a look at five of the larger mutual funds offered by industry leaders — Fidelity Emerging Markets Index Fund (FPADX), State Street Emerging Markets Equity Index Fund (SSKEX), BlackRock iShares MSCI Total International Index Fund (BDOKX), Vanguard Emerging Markets Stock Index Fund (VEMAX), DFA Emerging Markets Core Equity I (DFCEX) — (which happen to be included in the new Mutual Fund Window available to TSP beneficiaries) — includes at least 14 underlying companies directly linked to China's military-

industrial complex and listed on either the Department of Defense's Section 1260H list or the Treasury Department's NS-CMIC List or both, in just these five funds. This is in addition to several companies on the Commerce Department's BIS's Entity List and others with documented links to the oppressive Chinese surveillance state and connected to Uyghur forced labor.

Federal Government's Thrift Savings Plan Investing in our Adversaries

The U.S. Government is facilitating the investment of billions of taxpayer dollars in CCP-controlled companies via the federal workers' retirement system, the Thrift Savings Plan (TSP). The Thrift Savings Plan is the largest defined contribution pension system in the world, with more than \$730,000,000 in assets. In June 2022, the TSP's administrators on the Federal Retirement Thrift Investment Board (FRTIB) enabled TSP participants to invest up to 25% of their savings (a minimum of \$10,000) in more than 5,000 mutual funds via a new platform called the "Mutual Fund Window." The TSP's Mutual Fund Window initiative was launched in June of last year and has already received more than \$47 million in investments. No due diligence or screening has been performed to ensure the mutual funds included in the new TSP platform exclude U.S.-sanctioned or other Chinese corporate "bad actors."

Participants are unable to determine what mutual funds are included in the Window until after they have transferred a minimum of \$10,000. The Coalition for a Prosperous America's (CPA) research has demonstrated that the Window's largest emerging markets funds include problematic CCP-controlled companies in their investment portfolios.

CPA's research also found that five of the largest international funds in the Window had an average weight of 22 percent toward Chinese companies, and all five funds held companies listed on the U.S. Department of Treasury's list of Chinese Military-Industrial Companies, the Department of Commerce Entity List, the Commerce Department's Unverified list, or the Department of Defense Chinese Military Companies list. Companies are placed on these lists because they threaten U.S. national interests, have been involved in serious technology theft, and/or are implicated in the genocide of the Uyghur people.

The FRTIB claims it has neither the time, expertise, nor the resources to research the mutual funds offered to current and retired federal employees, military personnel, and veterans in the interest of ensuring that CCP-controlled corporate bad actors are excluded from their portfolios. The FRTIB also claims they are not obligated to restrict investment in problematic Chinese companies. For example, the FRTIB has not fulfilled its 2020 public pledges to remove Chinese companies from the TSP's International Fund (I Fund).

Worse still, in May 2020, the Department of State notified Congress that the passage of the Beijing-drafted National Security Law obviated the distinction between Hong Kong and the People's Republic of China, and that Hong Kong could no longer be considered autonomous. Despite this determination, the FRTIB, has refused to remove 32 Hong Kong-based Chinese companies from the International Fund of the TSP.

Through the research conducted by CPA and its allies, several Chinese Communist Party-owned companies were found in the funds, including the Aviation Industry Corporation of China (AVIC), China General Nuclear Power Group (CGN), and COSCO Shipping — all PLA-linked enterprises. The funds also included companies under scrutiny for forced labor practices, as well as those involved in China's growing surveillance state.

By some estimates, American investors have provided as much as \$2- \$3 trillion or more in investment capital to Chinese companies over the past decade (including passive investment vehicles). This is, in no small part, due to a May 2013 bilateral MOU between U.S. and Chinese securities regulators, whereby U.S.-listed Chinese companies enjoy preferential access to U.S. capital markets because they are not required to meet the same requirements as U.S. public companies. U.S. capital markets have funded China's unprecedented military build-up; its Belt and Road Initiative; gross violations of human rights, including genocide and crimes against humanity; predatory and market distorting trade practices; and the wholesale theft of American technology and intellectual property.

The U.S. government has sanctioned hundreds of Chinese companies for their role in enhancing the threats to our national security posed by the PLA and egregious human rights violations, but they still benefit hugely from largely unrestricted access to U.S. capital markets and are held by hundreds of widely available mutual funds, public pension funds, and university endowments. In 2019, BlackRock – as the lead asset manager of the investment portfolio of the Thrift Savings Plan – advised the FRTIB to increase the TSP International Fund's exposure to CCP-controlled firms. BlackRock continues to be one of the most vocal investment managers encouraging expanded investment in China, and in 2021 became the first U.S. investment management firm to provide investment products directly to Chinese retail investors — perhaps as a reward.

To be clear, no U.S.-listed Chinese-domiciled companies held by either the core TSP funds, or the Mutual Fund Window, are compliant with federal securities laws and regulations, such as legally mandated audit requirements designed to protect American investors. Due to the negligence of the TSP's managers, American servicemen and women, and other government employees may be unwittingly funding their country's leading adversary – including companies involved in the PLA's modernization efforts or the CCP's genocide against the Uyghur people.

We should be able to all agree that CCP-controlled companies should not be financed through the retirement savings of U.S. government employees. The FRTIB should not be allowed to abdicate its due diligence and fiduciary responsibilities to our military and federal workforce. At a minimum, the FTRIB should take steps to ensure that the TSP Mutual Fund Window publicly discloses: 1) which TSP regular or mutual funds hold Chinese-domiciled companies, including those based in Hong Kong; 2) whether any such company has been sanctioned or otherwise listed by an agency of the United States government; and 3) whether any such companies are non-compliant with U.S. securities laws and regulations, including PCAOB audit requirements.

Harmonizing Government Sanctions — How to Guide Investors Away from Bad Actor Chinese Companies

Capital markets sanctions have been scarcely utilized to date, despite being a highly effective tool to advance America's national security, fundamental values, investor protection and other national goals. Polling conducted by CPA shows an overwhelming majority of Americans are concerned about investing in risky Chinese companies and support stricter investment requirements and safeguards. A poll conducted by Morning Consult shows sixty-two percent of voters are troubled that Americans can invest in Chinese and Russian companies that have been sanctioned by the U.S. government or have not complied with U.S. securities and other laws.

To accomplish the mission of ramping down U.S. capital investment in unfit Chinese companies, three Executive Orders have been promulgated by both Republican and Democratic presidents in an effort to selectively enforce capital investment bans on Chinese companies in critical industries and linked to the CCP's military and military-civil fusion operations. The first two EO's, enacted by President Trump — EO 13959 (now amended by EO 14032) and EO 13974 (now rescinded) — focused on Chinese enterprises on the U.S. Department of Defense's Chinese Military Company List (as called for by the annual NDAA) and required that they be placed on the Treasury's Office of Foreign Assets Control (OFAC) list. If a company were on the DOD list, then it was automatically slated for a prohibition on the buying and selling of its securities within a certain window of time.

Under the Biden administration, these policies were updated with a new EO, 14032. This EO expanded the scope of capital markets sanctions beyond the DOD list and now includes what are known as surveillance technologies companies. This new EO, however, rescinded the concept of forced divestment by canceling out EO 13974, and created a new list within OFAC, as opposed to the DOD-only list. Now OFAC can add a broader swath of companies across more categories to its Non-SDN Chinese Military Industrial Complex Companies List (NS-CMIC List).

Regrettably, but true to form, the Treasury Department is reluctant to engage in the process of making additions to its list, despite commitments from the White House to update the list on a rolling basis. Indeed, the list is basically just gathering dust at this writing. This Committee and others need to try to compel Treasury to follow-through on sanctions updates at a regularized intervals and in alignment with broader U.S. policy aims and priorities. Rather than adding companies to this list and updating the EO's annex, Treasury issued some squishy guidance at the one-year mark of the Biden EO and basically undercut the White House's own intentions by releasing a contradictory and intentionally vague FAQ sheet, which reads in part, regarding the concept of "divestment":

"U.S. persons are not required to divest their holdings of CMIC securities during the relevant 365-day divestment period and may continue to hold such securities after the divestment period. E.O. 13959, as amended, permits purchases or sales made solely to affect the divestment of CMIC securities, but only during the 365-day divestment period. Accordingly, any such purchase or sale is prohibited after the 365-day divestment period, absent OFAC authorization."

Further, in addition to this highly — and deliberately — confusing FAQ, Treasury has failed to add new sanctioned entities, not yet releasing one new tranche of sanctioned entities since the

initial EO (though a few companies were added when a rule in the federal register clarified the intermingling of the Trump-era EO list, the DOD list, and the new, updated Biden-era EO , which allowed for less than ten additional companies to be added to the NS-CMIC list annex).

As of October of 2022, the Commerce Department's well-known Bureau of Industry and Security (BIS) Entity List contained 1,167 listed entities, while the NS-CMIC list contained only 68. While we understand that these lists are not the same and require different legal standards and thresholds for listing, common sense and U.S. policy would indicate these lists should be in complete or near-complete alignment. *Tragically, but again not surprisingly, only 16 Chinese corporate wrongdoers are on both lists.* This means that only 1.4% of those companies being subject to specific licensing requirements for the export, reexport and/or transfer (in-country) of specified equipment and technologies are likewise being denied fundraising privileges in the U.S. capital markets.

As stated on the Commerce Department's BIS website, "Since its initial publication, grounds for inclusion on the Entity List have expanded to activities sanctioned by the State Department and activities contrary to U.S. national security and/or foreign policy interests." It would stand to reason, therefore, that these same concerns regarding sanctioned activities and corporate behavior contrary to U.S. national security and/or foreign policy interests would also apply to attracting capital in our markets which easily could facilitate the means of production of the very goods the U.S. is supposedly concerned about. Also, when a company is added to the NS-CMIC List, subsidiary or parent companies must also be considered and included.

There is much room left to institutionalize and utilize capital markets sanctions as a powerful new force and tool kit in economic and financial statecraft as well as to help clean up our heavily soiled capital markets.

One key area for inclusion is the concept of sanctions harmonization. Better than the notion of sanctions reciprocity, sanctions harmonization links up current lists run by various U.S. Government departments and agencies in an interlocking process such that being sanctioned or listed by one enables the other to undertake sanctions action as well, and ultimately lead to -- at long last -- increased listings by OFAC and more rigorous, routine reviews.

Current U.S. Government arrangements provide little transparency on why some Chinese companies are selected to be on one list, but not another. Across the U.S. Government, there are dozens of reports, lists, advisories, or sanctions tranches issued on a recurring basis. Some of these include: the U.S. Commerce Department's Bureau of Industry and Security (BIS) Entity List; the Military End User List, the Unverified List, the Department of Defense's 1260H or CMC List (formerly 1237 CCMC List), the new Uyghur Forced Labor Prevention Act Entity List maintained by Department of Homeland Security, the OFAC NS-CMIC List, and more.

There is an urgent need to put in place a process by which agencies responsible for enforcing and implementing sanctions better communicate with each other and the Congress to ensure that every company that is listed by any agency goes through a review by all agencies for inclusion on each individual sanctions list. To that end we support draft legislation Congress is currently considering to address this very issue. The goal is to require the agencies that maintain malign

entity lists (Departments of Treasury, Commerce, Defense, and Homeland Security) to better coordinate, review listing decisions of other agencies, and decide on listing such entities on their respective lists. The bill requires that agencies reviewing a company or entity that was listed by another agency to provide a legal justification to Congress (affirmative or negative) and notify the public. Moreover, Global Magnitsky Act sanctions must be included in this policy arena, requiring some necessary updates to separate out human rights accusations from those of corruption, enabling further actions and sanctioning to take place by Treasury.

Additionally, the State Department must be included at the table as the U.S. government's preeminent authority on human rights. State Department warnings such as the one issued on December 8, 2020, on bad actors present in U.S. capital markets or the Hong Kong or Xinjiang Business Advisories must be issued and updated on a recurring basis and linked to sanctions from Treasury, notably inclusion on the NS-CMIC List.

While both houses of Congress unanimously passed legislation to require a report annually to be produced by Treasury—in consultation with DOD, State, and the intelligence community—on the presence of malign Chinese companies in the U.S. capital markets, the measure failed to be included in the final China bill voted on this summer. To properly tackle ending the CCP's abusive exploitation of the U.S. capital markets (and Wall Street's facilitation of same), Congress must have the necessary information. This can be done in consultation among Treasury, the SEC, the State Department, the Department of Defense, the National Security Council, and others to ensure Congress has better information with which to make informed decisions to protect our capital markets, investors, and nation from the CCP's financial predations.

As an illustration of the challenge facing the U.S, the federal government has recently implemented the CHIPS Act and export controls designed to prevent China building advanced semiconductors with military capabilities. Yet financial industry data shows that last year, U.S. investors provided \$8.8 billion to Chinese semiconductor startups, more than six times greater than the \$1.3 billion invested in comparable U.S. startups. Much of those \$8.8 billion dollars came from U.S.-based public and private investment funds. *Why are we supposedly working hard to prevent Chinese access to advanced U.S. semiconductors, while simultaneously permitting multi-billion-dollar American funding of Beijing's development of such dangerous, militarily-relevant capabilities?*

Another telling anecdote is that of CSSC Holdings Ltd. As of June 2022, household names in the investment world – BlackRock and Vanguard – are providing Exchange-Traded Funds (ETFs) and other investment products to consumers that track indices containing Chinese companies building and modernizing the Chinese Communist Party's military. CSSC Holdings Ltd. was listed as a constituent of the MSCI Emerging Markets, MSCI ACWI, FTSE Emerging, and FTSE All-World indices. These indices are tracked by trillions of dollars of assets under management globally through associated ETFs.

Most Americans are not positioned to analyze the indices tracked by their ETFs, or to have a handle on which Chinese companies are in their ETFs and other index funds. This is, in part, what is desperately wrong with this picture. What happened to fiduciary responsibility along the

trail? Do these prominent U.S. asset managers fully understand and appreciate the risks to *their* corporate reputations and brands once a large swath of the empirical facts and evidence are made available to the American people? Have those Members of Congress who have, to date, fulsomely supported the positions taken by these asset managers concerning China's presence in our capital markets thought through how this is ultimately going to play out politically? Apparently not.

On June 17, 2022, the People's Liberation Army Navy (PLAN) successfully launched its third aircraft carrier from Shanghai's Jiangnan Shipyard. The new carrier enables PLAN to launch a wider variety of aircraft and is reportedly equipped with technology furthering PLAN blue water naval capabilities. Jiangnan Shipyard, where the Fujian was built, is a commercial and naval shipbuilding facility.

Jiangnan was wholly acquired in 2019 as a subsidiary of China State Shipbuilding Corporation Holdings Limited (CSSC Holdings Ltd.). CSSC Holdings Ltd. is the publicly traded arm of China State Shipbuilding Corporation Ltd., a Chinese state-owned enterprise carrying out shipbuilding and repairs for cargo customers and PLAN military vessels and is included in some of the world's most prominent investment indices. Foreign capital flowing into Jiangnan Shipyard directly via its commercial business or indirectly via CSSC Holding Ltd securities, may both directly and indirectly support PLAN modernization.

Development of the PLAN's fourth aircraft carrier is reportedly underway at Jiangnan shipyard, with the carrier's launch expected between 2025 and 2027.

CSSC was designated as a Non-SDN Chinese Military Industrial Complex Company (NS-CMIC) on June 3, 2021. This listing, under Executive Order 13959 (as amended by President Biden in Executive Order 14032), prohibits U.S. persons from purchasing or selling any securities of companies deemed to be supporting China's military-industrial base. This prohibition does not apply to subsidiaries, like CSSC Holding Ltd. or Jiangnan Shipyard, that are not also explicitly designated by the Treasury Department's Office of Foreign Assets Control (OFAC). Correspondingly, CSSC was designated by the Department of Defense as a Chinese Military Company operating directly or indirectly in the United States by the Biden Administration in June 2021, in accordance with the FY21 NDAA's section 1260H.

As of June 2022, CSSC Holdings Ltd. was listed as a constituent of the MSCI Emerging Markets, MSCI ACWI, FTSE Emerging, and FTSE All-World indices. These indices are tracked by trillions of dollars of assets under management globally, for example, through the associated Exchange-traded funds (ETFs). The primary ETF providers include BlackRock's iShares products and Vanguard's UCITS products, respectively.

In addition to issuing yuan-bonds, as of 2015, the CSSC corporate family has raised nearly \$2.6 billion through euro- and dollar-denominated debt placement via markets such as the U.S. Over-the-Counter market, Frankfurt, and Bank Sarasin (Switzerland) markets and JP Morgan bond-focused ETFs, among other debt markets. Nearly all of which were underwritten by Western

banks, most commonly Barclays and Société Générale. Four of CSSC's euro- and dollar-bonds have yet to mature:

These cases underscore why greater transparency and more robust disclosure must be required of U.S. index providers and fund managers. U.S.-sanctioned and known bad actor Chinese companies must be prohibited from investment exposure by Americans through the imposition of targeted capital markets sanctions. Considering the recent spy balloon incident and CCP-led aggression against Taiwan, American investors must stop funding the People's Liberation Army and Navy and enabling their military modernization via the manufacture of advanced weapons systems. It is sadly ironic that Americans are simultaneously financing our own military modernization *and* that of the CCP.

Recommended Policy Actions

To reinforce the policy recommendations enumerated at the outset of this testimony, there are three basic pillars to consider when assessing the status and suitability of Chinese publicly traded companies to list or trade in the U.S. capital markets: national security, human rights, and investor protection. Thus far, China must receive a failing grade in the category of investor protection by any reasonable measure. It has been also amply demonstrated that a disturbing array of sanctioned and other Chinese corporate national security and human rights abusers are included in America's most popular international indices and investment products. These are the facts of the case. Chinese enterprises have been receiving preferential treatment by the U.S. government — notably the Public Company Accounting Oversight Board (PCAOB) -- since well before the May 2013 bilateral MOU which enshrined this preferential treatment for Chinese public companies over American market participants. Congressional action is clearly warranted here, given the glaring shortcomings of the well-meaning Holding Foreign Companies Accountable Act (HFCAA).

CCP-controlled Chinese companies must retain largely unfettered access to the U.S. capital markets – period. The reverse is not true. Our capital markets constitute arguably the most powerful, non-military lever and sanctions tool that the U.S. possesses in its economic arsenal. Although it is preferred that the exercise of such leverage be in concert with U.S. allies, it is not a requirement, given America's dominant position in the global financial domain.

In comparison, Chinese equity markets are regarded by most market experts as glorified casinos, largely manipulated by Chinese leadership (e.g., witness the equities market meltdown in the summer of 2015). Like its equity markets, China's huge bond market is largely non-transparent and comprised of the securities of "black box" enterprises. Hong Kong has been all but snuffed out – courtesy of Communist Party repression – as a credible global financial hub and it is now just another Chinese city. There exists precious little reciprocity with regard to the treatment and latitude accorded U.S. and allied financial sector companies in China's capital markets and financial system. Indeed, the stunning lack of reciprocity alone can only be described as scandalous and unsustainable.

Concerning capital markets diplomacy, there are basically zero existing joint efforts underway among the U.S. and its partners and allies with respect to the glaring shortfalls and abuses in

investor protection norms and national security and human rights concerns by Chinese companies in Western capital markets. The principal reasons for the absence of such urgently needed cooperation among allies are a concerted effort to preserve Wall Street and other market fees, the lure of selling investment and wealth management products to average Chinese institutions and citizens, and the often-conflicted policy positions of the economic and financial agencies of government.

Few policymakers appear mindful of the devastating consequences for the cause of freedom resulting from the trillions of dollars that have thus far been transmitted from the investment portfolios of scores of millions of unwitting American and allied investors to the bank accounts of the Chinese Communist Party and its proxy enterprises. Tragically, this explains, in no small part, how China has been able to: 1) achieve near military parity with the U.S.; 2) construct its elaborate surveillance state; 3) establish control over vital global resources and technologies; 4) vacuum up much of the world's strategic business, military and personal data and many other malevolent activities. That said, all one hears in the halls of the Pentagon is "it's [the capital markets] not in our lane".

In addition to the aforementioned U.S. Government actions, below is a mere sampling of what else should be happening amongst partners and allies. This includes:

- A permanent G-7 working group on the national security, investor protection and human rights dimensions of the Chinese corporate and sovereign presence in each nation's capital markets;
- A revival of the now-moribund Economic Secretariat of NATO to do the same, with a concentration on military and security concerns;
- The harmonization of security-minded regulatory regimes among the allies;
- The authorization — and institutionalization — of an array of capital markets sanctions tools and policy options to push back against, or respond to, the actions of malign publicly traded Chinese companies as well as the CCP's ongoing efforts to penetrate and undermine our societies and way of life;
- The passage into law of a number of legislative initiatives (some enumerated above) in the U.S. Congress, and its allied counterparts, designed to make illegal the kind of Chinese government abuses listed above in the "Strengths" section of this testimony.
- The allied establishment of permanent senior interagency or inter-ministerial groups, reporting directly to the Head of State, on the massive Chinese funding, espionage and other unfair and/or malign activities in the U.S. and allied capital markets;
- The standing up of Economic and Financial Warfare Centers in the U.S. and allied countries (e.g., within the Indo-Pacific Command of the United States) to counter the various forms of such financial and related warfare being waged by the CCP and its corporate proxies against Western countries on a daily basis for over two decades;
- The establishment of a "*Sixth Domain*" of American and allied warfighting — notably the "*Economic and Financial Warfighting Domain*" (joining the land, sea, air, cyber and space domains) — to end, at long last, this scandalous multi-trillion-dollar U.S. and allied

underwriting of the Chinese Communist Party's police state and the PLA, courtesy of Beijing's clever and successful weaponization of *our* capital markets.

Conclusion

Mr. Chairman, in closing, I would like to address what we, as individual investors can do to safeguard our hard-earned retirement and investment dollars, our country, and our fundamental values.

There are probably well over 100 million of us, Mr. Chairman, holding the stocks and bonds of U.S.-sanctioned and other Chinese corporate "bad actors". Do we really believe that the American people would have wanted to be holding — unwittingly — the securities of Soviet companies or those supporting Nazi Germany? Do we really believe that my former boss, President Reagan, would stand by and permit the multi-trillion-dollar American funding of those that would destroy our democracy and everything we hold dear? As his NSC Senior Director of International economic Affairs, I was in a position to know, and I can assure you that he would not — not for a moment.

Accordingly, I call upon the members of this Committee, and the Congress more broadly, as well as my fellow American retail investors to go to their fund managers, stockbrokers, financial advisers, pension system administrators, college endowments, corporations, unions, and others, and say the words: "Not with my money. Take me out of Chinese companies, particularly those buried in my Exchange-Traded Funds, mutual funds, and other passive investment products." Nancy Reagan captured this sentiment succinctly in her anti-drug campaign in the 1980's, "Just say no!".

If the Congress passes the necessary laws recommended in my testimony; if we take a stand as individual Americans in defense of where our money is going and how it is being used by Wall Street firms and other supposed financial gurus who often cannot see further than their quarterly quotas and bonuses, we can not only set free some 300 million people without a shot fired — as was the case with the Soviet Union — but some 1 billion 300 million Chinese nationals living under the fear, repression and brutality of a fascist dictatorship.

Remember always, money often kills in the hands of authoritarian police states.

We must act now before it is too late and scores of millions of our nation's investors face material, if not debilitating, financial losses. For example, more likely when, not if, the first shots are fired in the Taiwan Strait — as soon as next year — it will be too late. We cannot wait another day. Let us together make the American "defunding" of the Chinese Communist Party the 21st century equivalent of *our* "finest hour".