

Vanguard, BlackRock Funnel U.S. Investment to Chinese Shipyard that Built Third CCP Aircraft Carrier

SUMMARY

As of June 2022, BlackRock, Vanguard, and other Wall Street financial firms are exploiting American investors and helping the Chinese Communist Party (CCP) build and modernize the Chinese military. Currently, these firms are offering Exchange Traded Funds (ETFs) and other investment products to U.S. investors that track indices containing Chinese companies building and modernizing the CCP's military. For example, CSSC Holdings Ltd. was listed as a constituent of the following indices: MSCI Emerging Markets, MSCI ACWI, FTSE Emerging, and FTSE All-World. These indices are tracked by trillions of dollars of assets under management globally through associated ETFs.

✘ **PROBLEM:** American investors, via ETFs and Mutual Funds, are actively funding Chinese entities that are modernizing China's People's Liberation Army and Navy, and that have been sanctioned (or are linked to a company that has been) by the U.S. government for human rights abuses or national security risk.

✓ **SOLUTION:** Require transparency and disclosure from index providers and fund managers, and prohibit sanctioned and known bad actor Chinese companies from inclusion in indexes and investment products like ETFs and Mutual Funds.

BACKGROUND

On June 17, 2022, The PLA Navy (PLAN) successfully [launched](#) its third aircraft carrier from Shanghai's Jiangnan Shipyard. The new carrier enables China 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. (SHA:600150) is the publicly-traded arm of China State Shipbuilding Corporation Ltd. (CSSC) (中国船舶工业集团有限公司), a Chinese state-owned enterprise carrying out shipbuilding and repairs for cargo customers and PLAN military vessels. CSSC 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](#) by the U.S. government 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.

TIMELINE

- **2003:** State-run China Daily [reports](#) the development of PRC government preferential policies to “support” fundraising for the shipbuilding industry via capital market instruments like bond placements or public offerings.
- **2007:** PRC government [releases](#) guidelines enabling the defense industry to utilize capital markets.
- **2007:** CSSC [announces](#) plans for Hong Kong initial public offering sponsored by JPMorgan.
- **2009:** CSSC [issues](#) first bond on interbank bond market.
- **2015:** Researchers [find](#) CSSC Holdings has raised a total of \$8.63 billion from the debt markets and \$3.02 billion from equity sales.
- **2016:** Reports [emerge](#) that construction of the Type-003 Fujian aircraft carrier has begun at CSSC’s Jiangnan Shipyard.

CAPITAL MARKET EXPOSURE

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 US 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:

Borrower	Issuer	Type	Issue Date	Maturity Date	Amount	SEDOL	ISIN
CSSC International Holding Company	CSSC Capital Two	Corporate Bond/Note	September 27, 2018	September 27, 2023	300 million EURO	BFM4DY9	XS1882616474
CSSC Hong Kong	CSSC Capital 2015 Ltd.	Corporate Bond/Note	February 13, 2020	February 13, 2030	400 million USD	BKTQVZ0	XS2115047735
CSSC Hong Kong	CSSC Capital 2015 Ltd.	Corporate Bond/Note	February 13, 2020	February 13, 2025	400 million USD	BKTQW02	XS2100650758
CSSC Hong Kong	CSSC Capital 2015 Ltd.	Corporate Bond/Note	July 27, 2021	July 27, 2026	500 million USD	BN7D3L4	XS2358216211