INSIDE THE WIRE

WALL STREET'S JOINT VENTURES WITH THE CHINESE COMMUNIST PARTY

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CPA
COALITION for a PROSPEROUS AMERICA

EXECUTIVE SUMMARY

The elite capture of Wall Street's management class has reached epidemic proportions with a rash of international partnerships that offer China undue influence inside the American political system in exchange for billions of dollars in management fees. This case study for Congress reveals a de facto merger of leading U.S. financial firms with banks controlled by the Chinese Communist Party (CCP) through joint ventures (JV) formed inside the People's Republic of China (PRC) and the United States itself.

Left unchecked, these JVs will only increase Beijing's influence in Washington, where the CCP has successfully advanced its agenda by co-opting the political influence of senior Wall Street executives and their lobbyists. Legislation is needed to stop the joint ventures between the United States' leading investment managers and China's largest state-owned banks before the CCP gains even more political power in our nation's capital. Members of Congress should be on high alert that the CCP is already "inside the wire" of America's top financial firms.

KEY TAKEAWAYS

The CCP has never had more leverage over the U.S. financial services industry than it does today because of international joint ventures designed to extract wealth from China's middle-class investors. Beijing uses its control of the JVs to co-opt the political influence of Wall Street, all for the benefit of China's strategic interests, an agenda that disadvantages the vast majority of Americans for the benefit of the very few. The Coalition for a Prosperous America, committed to reversing this dangerous trend, offers the following conclusions:

1. Large Wall Street firms, like BlackRock and Goldman Sachs, have launched joint ventures with banks controlled by the CCP in exchange for direct access to China's multi-trillion-dollar wealth management market;
2. The JVs fall under Chinese law, requiring the ongoing approval of state bank regulators controlled by the CCP, giving Chairman Xi Jinping unprecedented leverage over Wall Street's politically-influential management class; and
3. Congress must act before the financial incentives of the JVs – billions of dollars in potential management fees – draws the CCP and Wall Street even closer together, jeopardizing Congress' ability to act freely and decisively in the interest of the American people.

A WALL STREET-CHINA MERGER

Recent partnerships between leading Wall Street firms and companies controlled by the Chinese Communist Party undermine the integrity of the United States financial services industry. Whether structured as joint ventures or wholly-owned subsidiaries, these new corporations operate under Chinese law, subjecting them to the regulatory control of the CCP. This power imbalance gives Beijing undue influence within U.S. institutions deemed critical to the stability of the global financial system. Dozens of business partnerships between Western financial firms and China's state-owned banks have been quietly established without public debate or congressional oversight.

On one side of the JVs stand China's largest banks, state-controlled enterprises whose top executives answer to the CCP. These megabanks dominate the wealth management landscape inside mainland China by controlling access to hundreds of millions of clients with growing investment needs. They are also at the heart of the "Belt and Road Initiative" (BRI), Beijing's strategy to build political influence overseas, control foreign markets, and secure military basing rights for the People's Liberation Army (PLA). The Chinese banks named in this report have been structuring and funding hundreds of BRI projects across multiple continents.

On the other side of the JVs are American and European firms eager to penetrate mainland China's financial services market. The list includes companies designated as Systemically Important Financial Institutions (SIFI), "too-big-to-fail" banks that enjoy special standing in their respective home countries. This case study pays special attention to the world's largest asset manager, BlackRock, and Wall Street's premier investment banker, Goldman Sachs – two "revolving-door" firms with legendary influence inside the federal government. Also highlighted is the troubling case of KraneShares, a fund company that is based in New York City but owned by the Chinese government through a CCP-controlled investment bank.

JOINT VENTURES SUPPORT THE CCP

The business partnerships explored in this case study greatly facilitate the Chinese government's elite capture of U.S. asset managers. American firms have long sought access to China's wealth management market, an enormous pool of capital that remains largely underserved today, but the price of admission is nothing less than on-going collaboration with the CCP. The legal vehicles for these partnerships are usually joint ventures between Wall Street subsidiaries and CCP-controlled banks.

American asset managers want to transform China's middle-class into profitable fee-based clients by putting their savings into Western-style investment products. Wealth management services in China are delivered principally through banks, so foreign asset managers must gain access to these state-owned enterprises if they hope to succeed. This means gaining – and then keeping – the support of the Chinese government.

To Beijing, the JVs represent a way to recapitalize the Chinese economy in the face of historic outflows. In the first half of 2024, China's foreign direct investment (FDI) – long-term capital commitments from other countries – fell to $75 billion in July from $158 billion in January, a nearly 50% drop, according to Ministry of Commerce data.[1]

The FDI exodus from China is coupled with over six trillion dollars of losses in PRC equity markets from their price peaks in early 2021. Since then, mainland stock exchange volume – the number of shares traded over a given period – has dropped 50% from its high, betraying a lack of institutional interest in their listings.[2] Capital flight from Chinese equities has continued into the second half of 2024, as recession fears chase investors into government bonds, sending the ten-year yield to all-time lows.[3]

With foreign investors increasingly turning their backs on the PRC, and domestic institutions avoiding mainland-listed stocks, Beijing needs the savings of middle-class investors to restore liquidity to China's equity markets. The JVs are expected to deliver "patient capital" to Beijing by selling illiquid investments, such as personal pensions, that are less susceptible to the panic selling of China's stock exchanges. This mass transfer of capital – and the fees it generates for the joint ventures – promises even stronger and more troubling ties between Beijing and Wall Steet's management class.

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[1] Bloomberg, China FDI Foreign Capital Actually Utilized CNY YoY, July 2024.
[2] Bloomberg, Shanghai Stock Exchange Composite Index and Shenzhen CSI 300 Index, August 2024.
[3] Bloomberg, China Government Bond Generic Bid Yield 10 Year, August 2024.

JOINT VENTURES PROMOTE ELITE CAPTURE

The non-monetary benefits of the joint ventures to China should not be underestimated. U.S. financial firms have a long history of supporting Beijing on trade tariffs, export controls, and human rights sanctions. Di Dongsheng, a Beijing university professor and CCP mouthpiece, famously remarked that China has used Wall Street's "very strong influence on the domestic and foreign affairs" of America since the 1970s. "To put it bluntly," Di boasted in 2020, "for the past thirty years, forty years, we have been utilizing the core power of the United States."[4]

Credible reporting demonstrates how partnering with U.S. financial firms has afforded China substantial leverage within the American political system. The *Wall Street Journal* in 2018 reported that leaders of J.P. Morgan Chase, Goldman Sachs and BlackRock – among the nation's most powerful financial firms – sided with Beijing during trade talks with the White House. In exchange for the triumvirate's support, Beijing reportedly "offered to give U.S. financial firms a new opportunity to expand in China."[5]

Transactional behavior of this kind is characteristic of elite capture, popularly defined as "a form of corruption whereby public resources are biased for the benefit of a few individuals of superior social status in detriment to the welfare of the larger population."[6] According to a Federal Bureau of Investigation threat assessment, "the Chinese government is employing tactics that seek to influence lawmakers and public opinion to achieve policies that are more favorable to China."[7] The joint venture scheme – U.S. financial firms partnering with CCP-controlled banks to pursue billions of dollars in management fees – fits the mold of an elite capture strategy, whereby Beijing high-jacks the political influence of Wall Street to have its way with legislators and regulators in Washington.

WALL STREET OUT OF CONTROL

This CPA case study follows two earlier reports on how Wall Street supports the CCP's hold on power and the PLA's rapid military buildup. The first report showed that The Vanguard Group and its main index provider, FTSE Russell, partnered with a CCP-controlled company to distribute mutual funds in mainland China after pouring billions of dollars into companies that support sanctioned defense firms and human rights violators.[8] The second report on BlackRock and MSCI went a step further, revealing offshore funds that hold stocks normally off-limits to U.S. persons.[9] Wall Street executives show no interest in exercising self-restraint when it comes to business opportunities inside China. Corporate executives have formed JVs with banks controlled by the CCP, discounting the geopolitical risks associated with the PRC's military buildup and increasingly aggressive behavior overseas. Congress should take immediate action to legally halt Wall Street's merger with Beijing before it causes irreversible damage to U.S. national and economic security.

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[4] Frank Chung, "Chinese professor boasts about Beijing's influence in 'America's core inner circle', hails Biden victory," *news.com.au*, December 10, 2020.
[5] Lingling Wei, Bob Davis and Dawn Lim, "China Has One Powerful Friend Left in the U.S.: Wall Street," *The Wall Street Journal*, December 2, 2020.
[6] Wikipedia, "Elite capture," available at 'https://en.wikipedia.org/wiki/Elite_capture'.
[7] Federal Bureau of Investigation, "The China Threat," available at 'https://www.fbi.gov/investigate/counterintelligence/the-china-threat'.
[8] Coalition for a Prosperous America, "Case Study for Congress: Vanguard & FTSE Russell: How Wall Street Funds the CCP and PLA with U.S. Investor Capital," October 2023, available at 'https://prosperousamerica.org/wp-content/uploads/2023/10/CPA-Vanguard-FINAL-no-watermark.pdf'.
[9] Coalition for a Prosperous America, "Case Study for Congress: BlackRock & MSCI: How Wall Street's Offshore Companies Fund the CCP & PLA," April 2024, available at 'https://prosperousamerica.org/wp-content/uploads/2024/04/CPA-BlackRock-Report-April2024-FINAL.pdf'.

THE JOINT VENTURE DEALS

Joint ventures are Wall Street's preferred method of accessing China's financial services sector, a seemingly boundless market with hundreds of millions of customers. Western firms have executed these JVs through offshore fund companies domiciled in mainland China. The practice subjects the partnerships to regulatory agencies whose senior officials answer to the CCP.

The regulatory process in China's banking system is highly political. Wall Street's management class openly acknowledges that pleasing Beijing is how their business plans gain approval inside the PRC. In the words of one Goldman Sachs banker, "everything we do in China is more calculating than anywhere else in the world. You have to conduct yourself in a way that is considered constructive..."[10]

Dozens of Western corporations have nevertheless hurried to form joint ventures in mainland China. Figure 1 lists the JVs struck between China's seven largest banks and financial firms headquartered in the U.S. and Europe. Five of the seven Chinese banks – including the four largest worldwide – have been named Global Systemically Important Banks by the international Financial Stability Board.[11]

Figure 1. China's Largest Banks have Partnered with Leading U.S./Allied Financial Institutions

Company	China Ranking[12]	World Ranking	Total bank assets (US$)	Joint Venture Business Partner (Headquarters)
Industrial and Commercial Bank of China Ltd. (ICBC)	**1**	**1**	**$6.3 Trillion**	**Goldman Sachs (U.S)**
Agricultural Bank of China Ltd.	2	2	$5.6 Trillion	BNP Paribas (France)
China Construction Bank Corp. (CCB)	**3**	**3**	**$5.4 Trillion**	**BlackRock (U.S.)**
Bank of China Ltd. (BOC)	4	4	$4.2 Trillion	Amundi (France)
Postal Savings Bank of China Co. Ltd.	5	11	$2.2 Trillion	Deutsche Bank (Germany)
Bank of Communications Co. Ltd.	6	15	$2.0 Trillion	Schroders (U.K.)
China Merchants Bank Co. Ltd. (CMB)	**7**	**25**	**$1.7 Trillion**	**JPMorgan Chase (U.S.)**

Bold = Joint venture between U.S. asset manager and Chinese bank

Congress to date has not reacted to these joint ventures in any meaningful way. American and European firms have formed fund companies alongside Chinese entities in the past, but the latest deals are different, as they are nothing short of

[10] Tabby Kinder, "Goldman Sachs was poised to triumph in China. What happened?" *The Financial Times*, September 29, 2021.
[11] Financial Stability Board, "2023 List of Global Systemically Important Banks (G-SIBs)," November 27, 2023.
[12] Rankings and total assets obtained from S&P Global, "The world's largest banks by assets, 2024," April 30, 2024.

transformational from a revenue perspective. Access to hundreds of millions of clients through China's megabank network could become an unprecedented profit center for Western firms that stay on good terms with the CCP. Wall Street executives have dutifully managed expectations, citing recent geopolitical friction as a concern, but the long-term investment thesis that China is critical to their future margins remains fully intact. As BlackRock's annual report to investors put it, the opportunity in China is simply "too big to miss."[13]

GOLDMAN SACHS

Name of Joint Venture: *Goldman Sachs ICBC Wealth Management*

Joint Venture Partner: *Industrial and Commercial Bank of China*

Approved by Chinese Government: *July 2021*

Background: The Goldman Sachs Group (GS) has extensive business interests in mainland China, including some twenty subsidiaries ranging from asset management and commodities trading to advisory services for mergers and acquisitions. GS owns another two-dozen subsidiaries based in Hong Kong.

Goldman Sachs has actively participated in China's capital markets since opening its first mainland office thirty years ago. In 1994, the People's Bank of China granted GS a special seat on the Shanghai Stock Exchange with a license to trade stocks for foreign investors. In the years that followed, the Manhattan-based investment banker won prime underwriting roles, including initial public offerings for national champions such as Bank of China and PetroChina.

GS was the first U.S. firm to gain approval for a joint venture investment bank on the mainland. Goldman Sachs Gao Hua Securities Company Limited (GSGH) was established in 2004 as a JV with a Chinese brokerage firm. At the time, foreign firms could not operate in the PRC without a Chinese business partner, a restriction Beijing later dropped as part of a phased trade deal with Washington.

In October 2021, Goldman Sachs received approval from the China Securities Regulatory Commission to take full ownership of GSGH. Rebranded as "Goldman Sachs (China)," the firm offers Chinese customers financial advice, investment products and investment banking services, such as the underwriting of A-shares (i.e., mainland-listed stocks) and local currency bonds.

GOLDMAN SACHS PARTNERS WITH ICBC

Chinese regulators in 2021 also approved a JV between Goldman Sachs Asset Management (GSAM) and ICBC Wealth Management. ICBC Wealth Management is a subsidiary of the state-owned Industrial and Commercial Bank of China (ICBC), about 92% of which is owned by the state; its two largest shareholders are the Government of China and China Investment Corporation, Beijing's primary sovereign wealth fund.[14] Launched with government backing in 1984, ICBC has

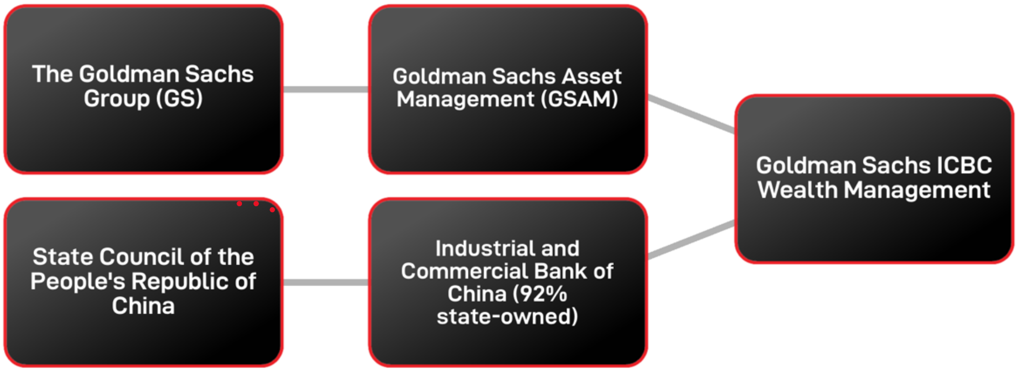
[13] CallStreet, "BlackRock, Inc. Investor Day," June 10, 2021, p. 34.
[14] FactSet, Industrial and Commercial Bank of China Limited.

since amassed an estimated $6 trillion in assets, making it the largest bank in the world.[15] GSAM supervises more than $2 trillion in assets for Goldman Sachs as its main investing division.

Branded "Goldman Sachs ICBC Wealth Management," the joint venture had a funding contribution from GSAM and ICBC of 51% and 49%, respectively. While Goldman Sachs technically enjoys a controlling interest, the dominant partner is ICBC, because it represents the Chinese government. Goldman Sachs ICBC Wealth Management would be worthless without the on-going approval of PRC regulators.

Partnering with ICBC offers Goldman Sachs access to a massive customer base for its investment banking and wealth management businesses. At the time of the JV's approval in 2021, ICBC's wealth management unit claimed about 25 million customers, 90,000 private banking clients, and 700,000 corporate customers. In terms of a footprint, ICBC has roughly 17,000 mainland outlets and is China's largest distributor of wealth management products.[16] ICBC's international operations is also unmatched, its investment banking division having formed over 400 institutions across some 50 countries, largely in support of the CCP's expansionist goals.

Figure 2. Entity Structure of Goldman Sachs ICBC Wealth Management



ICBC AND THE BELT AND ROAD INITIATIVE

ICBC is the driving financial force behind China's Belt and Road Initiative (BRI). Launched in 2013, BRI has spent over $1 trillion building global infrastructure, transportation, trade, and production networks into a hub and spoke system centered on – and controlled by – the PRC.[17] Originally devised to link East Asia with Europe, the development campaign now encompasses Africa, Oceania, and even Latin America, significantly expanding Beijing's economic and political influence.[18]

[15] S&P Global, "The world's largest banks by assets, 2024," April 30, 2024.
[16] "Goldman Forms Wealth Venture With China's Largest Bank," *Bloomberg News*, May 25, 2021; Tanner Brown, "Goldman Sachs and ICBC Joint Venture Is China's Latest Wealth Management Collaboration," *Dow Jones Newswires*, July 6, 2022.
[17] Congressional Research Service, "China's 'One Belt, One Road' Initiative: Economic Issues," May 16, 2024.
[18] See James McBride, Noah Berman and Andrew Chatzky, "Backgrounder: China's Massive Belt and Road Initiative," *Council on Foreign Relations*, February 2, 2023.

BRI is so important to Chairman Xi Jinping's vision of the future that the premier wrote the initiative into the CCP's charter seven years ago.

Critics of BRI call it a debt trap scheme for saddling foreign governments with unpayable loans to seize the underlying collateral, oftentimes assets with strategic value, or to extract political concessions in exchange for restructuring. For instance, after falling behind on its PRC loan payments, China forced Sri Lanka to surrender a seventy percent stake in the port of Hambantota as well as ninety-nine years of leasing rights to the facility. The Defense Department has monitored these "debt diplomacy" events with concern, noting that the PLA works closely with BRI to access overseas bases it will need to become a globally relevant force.[19]

ICBC initiated the Belt and Road Interbank Regular Cooperating (BRBR) Mechanism in 2017 to advance the PRC's financial integration with BRI target states. BRBR member banks, including premier institutions from around the world, are routinely tapped for Belt and Road capital. ICBC reports that BRI funds come from Chinese corporations and financial institutions, private funds inside and outside of the PRC, and even foreign governments. It is unclear if Goldman Sachs ICBC Wealth Management participates in the issuance or distribution of BRI-related securities.

BLACKROCK

Name of Joint Venture: *BlackRock CCB Wealth Management*

Joint Venture Partner: *China Construction Bank*

Approved by Chinese Government: *May 2021*

Background: BlackRock has also benefitted from supporting Beijing's national agenda, becoming the first foreign asset manager to obtain a license for a wholly-owned mutual fund business in mainland China in August 2020. This historic approval came about one year after Washington and Beijing signed a phased trade deal that included a Chinese commitment to ease constraints on U.S. financial firms operating in the PRC. The concession was widely interpreted as payback to BlackRock, Goldman Sachs and JPMorgan Chase for siding with Beijing in the preceding negotiations.[20]

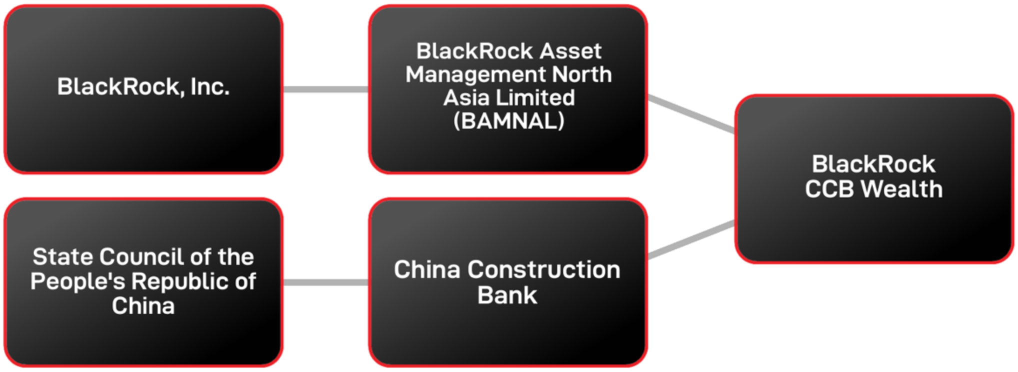
The trade deal was not the first time BlackRock had exercised its political influence on behalf of the PRC. In 2017, several U.S. asset managers helped Beijing tighten its control over dozens of companies listed on the Hong Kong Stock Exchange by voting for charter changes requiring corporate boards to consult with the CCP.[21] Critics at the time accused BlackRock of pandering to the Chinese government, while betraying investors who would have otherwise opposed handing control of their portfolio companies to political commissars.

[19] U.S. Department of Defense, "DOD Report Details Chinese Efforts to Build Military Power," October 19, 2023.
[20] Lingling Wei, Bob Davis and Dawn Lim, "China Has a Friend In Wall Street," *The Wall Street Journal*, December 3, 2020.
[21] Jennifer Hughes, "BlackRock and Fidelity put China's Communists into company laws," *The Financial Times*, September 17, 2017.

BLACKROCK PARTNERS WITH CHINA CONSTRUCTION BANK

Beijing rewarded BlackRock once again in May 2021, this time by approving a joint venture with CCB Wealth Management, a wholly-owned subsidiary of China's third largest bank. BlackRock ran its side of the partnership through BlackRock Asset Management North Asia Limited, or "BAMNAL," a subsidiary fund company domiciled in Hong Kong. Branded "BlackRock CCB Wealth Management," the joint venture had BlackRock assume a 50.1% stake versus CCB's 40% equity position, with a Singaporean sovereign fund taking the remaining shares. BlackRock in theory has a controlling majority in the joint venture, but as with Goldman Sachs ICBC Wealth Management, it cannot realistically succeed without the blessing of CCB's ultimate owner: The State Council of the PRC.

Figure 3. Entity Structure of BlackRock CCB Wealth



Wall Street firms are rewarded for staying in the good graces of the CCP. Chinese regulators in February 2022 issued BlackRock CCB Wealth Management a license to distribute pensions products in Guangzhou and Chengdu, China's fourth and fifth largest cities, respectively.[22] The door is now open for BlackRock to sell billions of dollars in financial services to retirees who can no longer depend on China's devastated real estate market for investment income.

LAYING LOW

BlackRock and Goldman Sachs executives rarely comment on their joint ventures with CCP-controlled banks. At a 2021 investor meeting, BlackRock declared its partnership with CCB a "long-term opportunity to build a global champion" inside China's $9 trillion onshore market, but the rhetoric has been subdued in recent years.[23] The firm's periodic mention of BlackRock CCB Wealth Management is now relegated to public filings, where investors may read in small print that the JV is subject to Chinese laws and regulations, among other material risk disclosures.

[22] "BlackRock CCB Wealth Management approved for pension wealth management in China," *Xinhua News Agency*, February 13, 2022.
[23] CallStreet, "BlackRock, Inc. Investor Day," June 10, 2021, p. 100.

Goldman Sachs has similarly downplayed its partnership with the Industrial and Commercial Bank of China. Chairman and CEO David Solomon casually referred to the joint venture as a "small and slow opportunity" during an April 2023 earnings call.[24] Solomon has walked back his firm's "growth at all costs" China strategy in general, citing deteriorating U.S.-Sino relations and higher geopolitical risk.[25] His cautious tone is likely influenced by Goldman Sach's revenue exposure to the PRC. An estimated 6.3% of the firm's total revenue ($7.6 billion) comes from mainland China, second only to the United States, leaving it vulnerable to a trade war, sanctions or worse.[26]

KRANESHARES ETFs

Name of Strategic Partnership: *Krane Fund Advisors*

Strategic Partner: *China International Capital Corporation*

Approved by U.S. Government: *2017*

Background: KraneShares ETF is majority-owned (51%) by China International Capital Corporation (CICC), a CCP-controlled company headquartered in Beijing, with offices inside the United States.[27] CICC has allegedly pressured its American employees to join the CCP, wear party badges in meetings, and swear loyalty to the PRC.[28] KraneShares presents itself as a fund family focused on Chinese-listed companies, climate change, and other themes that resonate with some retail investors, but the reality is less benign. The fund company routinely invests American and European capital in companies that support China's military-industrial complex and security services, including those prohibited from accessing advanced U.S. technology.

CICC was the PRC's first international joint venture, launched in 1995 by China Construction Bank and Morgan Stanley, which exited the partnership fifteen years later. Today, two-thirds of CICC belongs to China Investment Corporation (CIC), a sovereign wealth fund that is wholly owned and accountable to the State Council of the PRC.

The founder and CEO of KraneShares is Jonathan Krane, who also serves as president of the US-China Green Institute, a non-profit organization that claims to "foster cooperation between the United States and China to address the global climate crisis."[29] Krane sat on the board of the now defunct US-China Strong Foundation, an organization historically involved with the Confucius Institute U.S. Center, whose college campus locations were mostly closed after the State Department designated the group as a foreign mission.[30]

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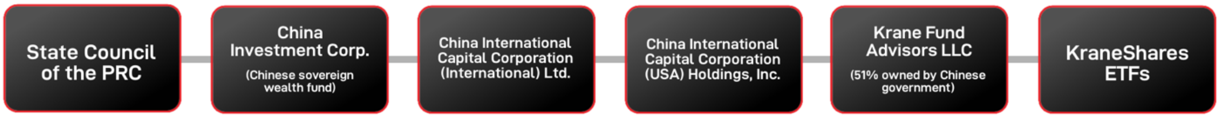
[24] CallStreet, "The Goldman Sachs Group, Inc. (GS-US), Q1 2023 Earnings Call," April 18, 2023, p. 19.
[25] Joshua Franklin and Owen Walker, "Goldman Sachs pares back 'growth at all costs' China strategy," *The Financial Times*, November 28, 2023.
[26] Source: FactSet estimate.
[27] KraneShares, "Our Partners," available at 'https://kraneshares.com/our-partners/'.
[28] Isabel Vincent, "Park Avenue bank ran Chinese Communist cell, ordered workers to follow party rules: lawsuit," *The New York Post*, February 14, 2024.
[29] US-China Green Institute, available at 'https://uschinagreeninstitute.org/', August 2024.
[30] U.S. Department of State, "Fact Sheet: "Confucius Institute U.S. Center" Designation as a Foreign Mission," August 13, 2020; Confucius Institute U.S. Center, Press Release: Dialogue, Engagement Key to Global Security and Prosperity: US Higher Education Leaders Discuss US-China Educational Exchanges, hosted by the Confucius Institute U.S. Center and the US-China Strong Foundation," April 26, 2018, available at 'https://www.ciuscenter.org/u-s-china-educational-exchanges-40-years-of-engagement-in-higher-education/'.

The Washington Free Beacon in 2021 reported that the US-China Strong Foundation was "ostensibly a nonprofit group that promotes student language exchanges with Beijing but whose leaders included prominent members of the Chinese government's overseas propaganda fronts, according to State Department and Department of Justice records."[31]

Figure 4. Entity Structure of Krane Fund Advisors LLC



CCP MOVES UP TO THE EAST SIDE

The CCP openly touts its membership ranks at CICC. Once considered Western-oriented, "the Morgan Stanley of China," CICC now features employees with party badges and flags at executive meetings. "One after another," *Bloomberg* reports, "bankers at China International Capital Corp. — China's premier investment bank – are pledging loyalty to the Communist Party, underscoring a new reality for Wall Street-style capitalists in the era of Xi Jinping."[32]

The U.S. subsidiary of CICC has even pushed its American employees to pledge allegiance to the CCP, a 2022 federal discrimination suit alleges, taking elite capture on Wall Street to another level.[33] The CEO of CICC (USA) – KraneShares' parent company – reportedly told U.S. citizens in its Park Avenue branch that "there would increasingly be a focus on membership in and allegiance to the Chinese Communist Party."[34]

One American trader at the bank, Andrea Bischof, accused CICC USA management of forming Chinese Communist Party committees in the office (i.e., creating a cell) and forcing employees to accept eight CCP rules, first among them that workers "must not violate the party and state policies."[35] It is unknown if KraneShares employees have taken the CCP pledge or joined party committees.

CCP SHARES

KraneShares' largest fund tracks the CSI Overseas China Internet Index, consisting of PRC-based companies focused on internet-related technology.[36] "CSI" stands for China Securities Index Company, another state-owned enterprise with longstanding ties to the CCP.

[31] Alana Goodman, "Biden's Asia Policy Czar Helped Found Group 'Heavily Influenced by the CCP'," *The Washington Free Beacon*, January 27, 2021; FactSet, Person Profile, Krane Funds Advisors LLC (00DLS5-E).
[32] Yang Yang, Naomi Ng, Jessica Beck, Adriana Tapia Zafra, and David Gura, "China's Oldest Investment Bank Is Being Reshaped by Communism," *Bloomberg*, July 2, 2024.
[33] Bob Van Voris, "CICC Accused of Bias by Non-Chinese, Non-Communist US Banker," *Bloomberg*, August 25, 2022.
[34] Isabel Vincent, "Park Avenue bank ran Chinese Communist cell, ordered workers to follow party rules: lawsuit," *The New York Post*, February 14, 2024.
[35] *Ibid*, *New York Post*.
[36] KraneShares CSI China Internet ETF (ticker: KWEB).

As the dominant index provider in China, CSI plays a special role in Beijing's announced plan to direct capital to military-useful technology companies by adjusting the allocation of benchmarks. Companies benefitting from this strategy are involved in artificial intelligence, semiconductors, and quantum computing – areas specifically cited by the U.S. Government as national security threats because of their broad military applications.

In November 2020, KraneShares launched an ETF to track the CICC China 5G and Semiconductor Leaders Index.[37] The fund holds a half-dozen companies that the Commerce Department has black-listed and barred from accessing U.S. technology and equipment. These companies on the Bureau of Industry and Security's (BIS) Entity List include chipmaker Cambricon Technologies and IFlytek, two leaders in China's artificial intelligence industry. The fund also holds state-owned semiconductor manufacturer Hygon Information Technology.[38]

Two months later, KraneShares issued an ETF designed to invest in companies on the "STAR Market," a board of the Shanghai Stock Exchange focused on early-stage technology companies with high growth potential. The ETF holds eight companies flagged by BIS as a national security risk, including two companies officially labeled "Military End-Users," meaning any technology they receive will likely be used to help modernize the PLA. For example, Baimtec Material and AVIC Chengdu Aircraft Industrial Group, both held by KraneShares, design and manufacture parts used in combat aircraft.[39]

KraneShares, in support of CCP investment priorities, even launched a BRI-themed ETF. The KraneShares MSCI One Belt One Road Index ETF, according to its fact sheet, "seeks to capture the economic growth and monetize the potential upside for the companies involved in China's One Belt One Road initiative."[40]

CSI indexes are steadily gaining acceptance by U.S.-based asset managers seeking exposure to China. This means that CCP-controlled businesses increasingly govern how American capital is deployed overseas. Absent reform, KraneShares, BlackRock, Goldman Sachs, Vanguard, State Street and other fund companies will, wittingly or unwittingly, continue financing companies that materially advance Beijing's strategic priorities, including its rapid military buildup that puts the U.S. Armed Forces at risk. Also at risk are America's broader national security interests, fundamental values, and hard-earned investment dollars.

KraneShares, in the opinion of CPA, behaves like an organization dedicated to normalizing American and European investment in companies that work on behalf of the Chinese government and its military. A prolific publisher of sell-side commentary – most of it targeted at American financial advisors – KraneShares is anything but critical of the CCP and PLA, projecting China as an environmentally responsible partner for global development. The fund company routinely holds webinars for financial professionals featuring notable policymakers, including ex-ambassadors and former administration officials, to discuss pro-China investment themes.

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[37] KraneShares CICC China 5G & Semiconductor Index ETF (ticker: KFVG).

[38] FactSet, KraneShares CICC China 5G and Semiconductor Index ETF (KFVG-US); Code of Federal Regulations, Supplement No. 4 to Part 744, Title 15, available at 'https://www.ecfr.gov/current/title-15/part-744/appendix-Supplement No. 4 to Part 744'.

[39] FactSet, KraneShares SSE STAR Market 50 Index ETF (KSTR-US); Code of Federal Regulations, Supplement No. 7 to Part 744, Title 15, available at 'https://www.ecfr.gov/current/title-15/part-744/appendix-Supplement No. 7 to Part 744'.

[40] KraneShares MSCI One Belt One Road Index ETF (ticker: OBOR); KraneShares website, 'https://kraneshares.com/obor/#documents'.

KRANESHARES ON K STREET

KraneShares may never have launched in the U.S. as a Chinese-majority owned firm were it not for helpful lobbyists in Washington. Official disclosures show that Krane Distribution LLC spent at least $300,000 lobbying the U.S. government in 2014 and 2015 on "Policy considerations regarding entry of Chinese asset management firm in U.S. capital markets."[41]

Krane Distribution hired DLA Piper LLP (US), a multinational law firm with significant operations inside the PRC. Proudly self-identifying as "one of the largest global legal practices with a presence in China," DLA Piper claims over 120 employees between its Beijing and Shanghai offices alone.[42] DLA Piper outsourced some of its lobbying work for Krane to TCK International, whose chairman is Tom C. Korologos, a former United States Ambassador to Belgium.

Krane's two-year lobbying campaign apparently paid off. In 2017, China International Capital Corporation assumed a majority ownership stake in a strategic partnership formed with Krane Fund Advisors LLC. The timing suggests that DLA Piper had successfully petitioned to let Chinese entities operate asset management companies in the United States as part of a broader deal struck between Washington and Beijing.

A fact sheet for the 2015 U.S.-China Strategic and Economic Dialogue shows that the Obama Administration secured China's commitment to expand and streamline existing vehicles for foreign investment in its securities market.[43] The letter of the agreement was never released to the public, however, leaving it unclear how a CCP-controlled company could be licensed to issue publicly traded securities inside the United States.

[41] United States Senate lobbying disclosures.
[42] DLA Piper website, available at 'https://careers.dlapiper.com/locations/china/'.
[43] U.S. Department of the Treasury, "Press Release: 2015 U.S.-China Strategic And Economic Dialogue U.S. Fact Sheet – Economic Track," June 25, 2015.

Figure 5. Krane Distribution Lobbying Activity (2014 - 2015)

UNITED STATES SENATE Lobbying Disclosure | Registrations & Quarterly Activity | Contributions | Download API | Lookup Registrant & Client IDs

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Registrations & Quarterly Activity

Registrant Name	Client Name	Report Type	Amount Reported	Filing Year	Posted
DLA PIPER LLP (US)	KRANE DISTRIBUTION LLC	Registration		2014	07/16/2014 @ 12:00 AM
DLA PIPER LLP (US)	KRANE DISTRIBUTION LLC	3rd Quarter - Report	$20,000.00	2014	10/20/2014 @ 04:00 PM
DLA PIPER LLP (US)	KRANE DISTRIBUTION LLC	2nd Quarter - Report	$200,000.00	2014	07/21/2014 @ 07:37 PM
DLA PIPER LLP (US)	KRANE DISTRIBUTION LLC	4th Quarter - Report	$30,000.00	2014	01/20/2015 @ 06:04 PM
TCK INTERNATIONAL, LLC	DLA PIPER LLP US (FOR KRANE DISTRIBUTION LLC)	Registration		2014	07/16/2014 @ 12:00 AM
TCK INTERNATIONAL, LLC	DLA PIPER LLP US (FOR KRANE DISTRIBUTION LLC)	2nd Quarter - Report	$30,000.00	2014	07/21/2014 @ 10:03 PM
TCK INTERNATIONAL, LLC	DLA PIPER LLP US (FOR KRANE DISTRIBUTION LLC)	4th Quarter - Report		2014	01/19/2015 @ 04:31 PM
TCK INTERNATIONAL, LLC	DLA PIPER LLP US (FOR KRANE DISTRIBUTION LLC)	3rd Quarter - Report		2014	10/20/2014 @ 01:52 PM
DLA PIPER LLP (US)	KRANE DISTRIBUTION LLC	1st Quarter - Report (No Activity)		2015	04/17/2015 @ 05:48 PM
DLA PIPER LLP (US)	KRANE DISTRIBUTION LLC	3rd Quarter - Report	$10,000.00	2015	10/20/2015 @ 06:44 PM
DLA PIPER LLP (US)	KRANE DISTRIBUTION LLC	2nd Quarter - Report (No Activity)		2015	07/20/2015 @ 03:12 PM
DLA PIPER LLP (US)	KRANE DISTRIBUTION LLC	2nd Quarter - Amendment	$10,000.00	2015	07/20/2015 @ 06:32 PM
DLA PIPER LLP (US)	KRANE DISTRIBUTION LLC	4th Quarter - Termination (No Activity)		2015	01/19/2016 @ 05:08 PM
TCK INTERNATIONAL, LLC	DLA PIPER LLP US (FOR KRANE DISTRIBUTION LLC)	2nd Quarter - Report		2015	07/20/2015 @ 04:42 PM
TCK INTERNATIONAL, LLC	DLA PIPER LLP US (FOR KRANE DISTRIBUTION LLC)	1st Quarter - Amendment (No Activity)		2015	04/21/2015 @ 04:52 PM
TCK INTERNATIONAL, LLC	DLA PIPER LLP US (FOR KRANE DISTRIBUTION LLC)	3rd Quarter - Report (No Activity)		2015	10/20/2015 @ 12:23 PM
TCK INTERNATIONAL, LLC	DLA PIPER LLP US (FOR KRANE DISTRIBUTION LLC)	4th Quarter - Termination (No Activity)		2015	01/20/2016 @ 06:52 PM

SUMMARY

- **The Goldman Sachs Group** operates a joint venture with China's largest bank, a state-owned enterprise controlled by the CCP.
- **BlackRock** is in a joint venture with one of China's top three banks, another state-owned enterprise under CCP control.
- **Wall Street joint ventures** inside the PRC are subject to Chinese law, creating a dangerous dependency on the CCP for regulatory approvals.
- **Krane Fund Advisors** is a U.S.-based asset manager majority-owned by China International Capital Corporation, a state-controlled investment bank populated with CCP loyalists.[44]

[44] KraneShares, "Our Partners," available at 'https://kraneshares.com/our-partners/'; Cathy Chan, "China's Investment Bankers Join the Communist Party as Morale (and Paychecks) Shrink," *Bloomberg*, July 2, 2024; FactSet, China International Capital Corp. (USA) Holdings, Inc. (0DDZ69-E).

- **Krane Distribution** spent at least $300,000 lobbying the U.S. Government in 2014 and 2015 specifically "regarding entry of Chinese asset management firm in U.S. capital markets" before Krane Fund Advisors launched in the United States.
- **KraneShares ETFs** hold stock in companies denied access to advanced technology and equipment by the U.S. government under the assumption that such items would be transferred to China's military-industrial complex and security services.
- **Washington** has failed to stop U.S. fund companies from investing in Chinese entities blacklisted over national security threats and human rights violations.
- **Beijing** leverages its business relationships with the U.S. financial services industry, one of the nation's most influential special interest groups, to advance its agenda in Washington.
- **Wall Street elite capture** threatens U.S. national security, human rights interests and investor protection, while undermining the ability of political leaders to act first in the interest of the American people.

RECOMMENDATIONS

Joint ventures with Chinese companies often prove disastrous for U.S. national and economic security. Cross-border deals over the last three decades have put the American people at risk, as in the case of illegal technology transfers to China's nuclear weapons and ballistic missile programs. Other bilateral agreements have carelessly undermined U.S. competitiveness through industrial espionage and intellectual property theft. Now the United States' principal adversary has taken elite capture on Wall Street to an unprecedented level, with a CCP-controlled bank in New York City – the parent company of KraneShares ETFs – allegedly coercing American citizens to join a Chinese Communist Party cell and pledge allegiance to the PRC.

There are clearly no limits to the Chinese Communist Party's brazen attempts to manipulate U.S. citizens in promotion of its national agenda. CPA urges Congress to terminate Wall Street's joint ventures with companies controlled by the CCP through the following legislative initiatives:

1. **Report on Joint Ventures with the CCP**: Require the Treasury and Commerce Departments to review, report on, and publicly list all JVs between U.S. financial firms and entities with a Chinese government stake of at least 10% within 90 days;

2. **Prohibit Joint Ventures between SIFIs and CCP**: Pass legislation outlawing JVs between Systemically Important Financial Institutions in the United States (and their affiliates) and PRC entities with a 10% Chinese government stake; and

3. **Disallow CCP-Controlled Firms in U.S.** Legally prohibit CCP-controlled companies from operating financial firms – including fund companies – inside the United States.

These commonsense measures are necessary to protect the American political system from a compromised U.S. financial services industry. Wall Street is merging with Beijing to pursue billions of dollars in recurring revenue from China's middle-class investors. Behind these deals stands the Chinese Communist Party, an adversary that ruthlessly leverages its relationships with U.S. business executives to advance a strategic agenda in Washington, almost always at the expense of the American people.

Allowing America's largest financial firms to become addicted to management fees from mainland China – a profit center dependent on CCP approval – would almost certainly complete the elite capture of Wall Street's management class. Members of Congress may imagine the dangers of a robust Wall Street-CCP merger. Resisting the special interests of the U.S. financial services industry, perhaps the most powerful lobby in history, is already a losing battle across the federal government.

Based on the systemic problem of elite capture, and the reality of corporate influence on the political process in Washington, CPA believes that letting Wall Street firms remain partnered with the CCP in pursuit of billions in investment management fees threatens Congress' ability to act independently in the interest of the American people.

For more information on Wall Street's use of American investor capital to fund the Chinese Communist Party and the People's Liberation Army, **see the following**:

- **Fox Nation:** ***Underwriting the Enemy*** – Available at https://www.fubo.tv/welcome/series/125040681/underwriting-the-enemy-with-maria-bartiromo?msockid=15449df344f26e8a2cc7891640f26c58
- **Coalition for a Prosperous America:** ***Case Study for Congress: BlackRock & MSCI: How Wall Street's Offshore Companies Fund the CCP & PLA*** – Available at https://prosperousamerica.org/wp-content/uploads/2024/04/CPA-BlackRock-Report-April2024-FINAL.pdf
- **Coalition for a Prosperous America:** ***Case Study for Congress: Vanguard & FTSE Russell: How Wall Street Funds the CCP and PLA with U.S. Investor Capital*** – Available at https://prosperousamerica.org/wp-content/uploads/2023/10/CPA-Vanguard-FINAL-no-watermark.pdf