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# MARKET RESEARCH



## Trump Signals Sanctions on Chinese Military Companies

Asset Managers & Consultants Inactive Despite Billions of Dollars at Risk

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### Our Call

Americans own billions of dollars in securities at risk of being outlawed under a national security initiative to defund China's military. The Trump Administration announced a new policy on foreign investment through a memorandum issued to executive branch officials one month after taking office. The "America First Investment Policy" (AFIP) directs the Secretary of Treasury to use "all necessary legal instruments" to deter U.S. persons from investing in the People's Republic of China's (PRC) military-industrial sector.<sup>1</sup> Outbound investment screens on companies serving the People's Liberation Army (PLA) could affect millions of Americans in international stock funds benchmarked to leading indexes. Constituents of those indexes include Chinese military companies, human rights violators, and other threats to U.S. national security. National Security Index offers Americans a better way to invest overseas by systematically screening out companies at risk of sanctions.

### Key Points

#### **Presidential Action on China Investments is Here** – President Donald J.

Trump has directed the federal government to reduce China's exploitation of U.S. capital, and Secretary of Treasury Scott Bessent says that "everything's on the table" to execute the policy.<sup>2</sup>

**Rising Sanctions Risks are Ignored** – The America First Investment Policy memorandum of February 2025 provides forward guidance on sanctions against Chinese military companies, affording fiduciaries time to react, yet leading asset managers and institutional consultants are largely silent more than two months after the rollout.

**Forced Divestment is Possible** – If reissued today, President Trump's Executive Order 13959 of November 2020 would ban U.S. persons from holding companies on a Department of Defense (DOD) blacklist that includes Tencent Limited, the largest Chinese stock by market capitalization.

**Investor Capital is at Risk** – State pension funds, retirement plans, and endowments have billions of dollars invested in Chinese military companies that could be sanctioned under AFIP.

**National Security Index puts American Investors First** – NSI stands alone by offering indexes that proactively exclude Chinese military companies.

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***"If the America First Investment Policy leads to an executive order that brings the Department of Defense back to the table to decide which companies get sanctioned, as much as \$200 billion worth of securities could be thrown out of U.S. markets."***

— Justin Bernier on  
Economic War Room  
April 11, 2025

## What is a Chinese Military Company?

U.S. persons may legally invest in most Chinese military companies today, but the law could change through executive order at a moment's notice. The term "Chinese military company" is defined in the Fiscal Year 2021 National Defense Authorization Act under two main categories. The first tier covers commercial entities controlled by the PLA or the Central Military Commission by which the Chinese Communist Party directs its armed forces. A second tier captures "Military-Civil Fusion" (MCF) companies that provide dual-use goods and services to the PLA.

The first Trump Administration saw MCF as "key to the development of the PRC's military, intelligence, and other security apparatuses."<sup>3</sup> The MCF strategy supports China's military modernization goals by ensuring that the PLA can acquire advanced technologies and expertise developed by PRC companies, universities, and research programs that appear to be civilian entities, reports DOD.<sup>4</sup>

The second Trump Administration is already considering new or expanded restrictions on MCF companies involved in emerging technology sectors such as semiconductors, artificial intelligence, and quantum computing. According to AFIP, President Trump is reviewing his predecessor's executive order on U.S. investments in China's national security technologies to determine whether it has "sufficient controls" to address the threat.<sup>5</sup> E.O. 14105 introduced the possibility of restricting private equity investments but omitted publicly traded securities from official scrutiny.<sup>6</sup>

Amendments to E.O. 14105 could serve as a foundation for widescale controls on outbound capital to Chinese companies with militarily useful technologies. The Pentagon has publicly named over one-hundred Chinese military companies, but the list only covers entities operating *inside* the United States. NSI assesses that hundreds more publicly traded entities in the PRC would meet the legal definition of a Chinese military company.<sup>7</sup>

## White House: "Economic Security is National Security"

President Trump could issue an executive order banning hundreds of Chinese companies from receiving U.S. capital in the interest of national security. Under the International Emergency Economic Powers Act, the President of the United States is authorized to regulate transnational commerce in response to "an extraordinary threat." Such a threat from Chinese military companies was established by President Joseph R. Biden in Executive Order 14032 of June 2021.<sup>8</sup> The threat was subsequently confirmed by the America First Investment Policy's official finding that China is "increasingly exploiting United States capital to develop and modernize its military, intelligence, and other security apparatuses."<sup>9</sup>

AFIP's central tenet that "economic security is national security" leads to a pair of directives with implications for global capital markets:



**"The United States will establish new rules to stop United States companies and investors from investing in industries that advance the PRC's national Military-Civil Fusion strategy."**

**"The United States will also use all necessary legal instruments to further deter United States persons from investing in the PRC's military-industrial sector."<sup>10</sup>**

These directives to defund the PLA make AFIP the most ambitious initiative against China's exploitation of U.S. capital to date. Equally unprecedented is the backing that AFIP has received from the cabinet member primarily responsible for administering and enforcing U.S. sanctions.

[AFIP posted online.](#)

## Treasury: “All Options are Available”

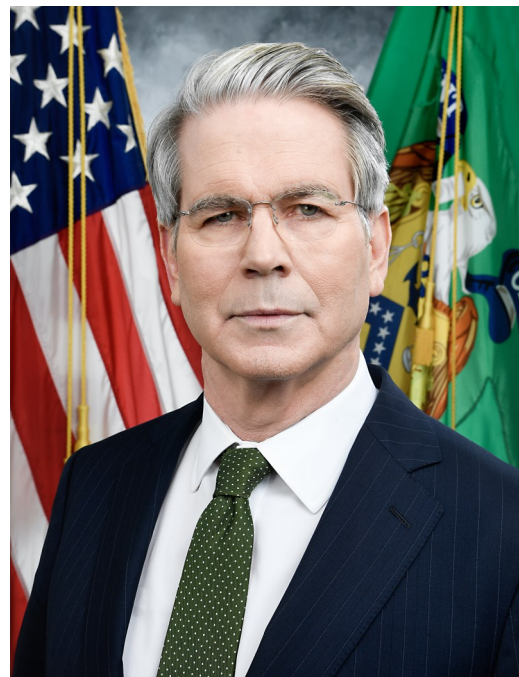
Secretary of Treasury Scott Bessent’s public support of AFIP contrasts with previous secretaries who came to Washington by way of Wall Street. During a *Fox Business* interview on March 18th, Secretary Bessent said that “all options are available” to remove Chinese military companies and human rights violators from U.S. capital markets for the benefit of American investors.<sup>11</sup>

**Maria Bartiromo:** *Would you go to the extent of potentially taking these Chinese companies off of U.S. exchanges?*

**Secretary Bessent:** *We will make sure that our outbound investment doesn’t turn around and get used against us, whether it’s chips, whether it’s our funding...and that funding could end up in this big military buildup that the Chinese are doing, so we are going to examine everything. President Trump has made it clear in the America First order that everything needs to be examined with the relationship to China.*

**Maria Bartiromo:** *So, you are in fact, then, looking at the outward investment...of companies that are tied to the PRC?*

**Secretary Bessent:** *Yes, I think it’s up to us to let [U.S. investors] know how their money is being used. Would one of these endowments, pension funds, ordinary Americans want to know that their money is being used to suppress the Uyghurs? Would they like to know that it is being used for Chinese military activities? Would they like to know that it is being used for Chinese surveillance opportunities. Of course not, so we are going to continue investigating this and, where necessary, block it.<sup>12</sup>*



Secretary of Treasury Scott Bessent

## Congress is Working on “Outbound Screening”

Maria Bartiromo’s interview of Secretary Bessent also revealed that the Trump Administration is working with Congress on legislation intended to limit U.S. investments in militarily useful technologies. Bipartisan groups from the House and Senate last month introduced similar versions of the *Foreign Investment Guardrails to Help Thwart (FIGHT) China Act* to establish, in the words of co-sponsor Rep. Andy Barr (R-KY), “a comprehensive outbound investment screening regime” to help Americans avoid financing the PLA.<sup>13</sup>

“What we are doing now,” Bessent said, is “outbound screening led by several leaders in the Senate, in the House...and Treasury is assisting this effort.”<sup>14</sup> Legislation targeting the securities of Chinese military companies and human rights violators has been proposed in years past, but never with the explicit support of the Treasury Department, suggesting greater cooperation between Congress and the White House this time.

Administrative action elsewhere points to a whole-of-government approach to Chinese military companies operating in the United States. For instance, Federal Communications Commission Chairman Brendan Carr has announced that his “first major initiative” will be a new Council on National Security to investigate Chinese companies suspected of compromising the nation’s infrastructure.<sup>15</sup> Chairman Carr named several companies held by U.S. investors, including ZTE Corporation, whose parent is a Chinese military company under Treasury Department sanctions. U.S. investors own about \$1 billion in ZTE stock.<sup>16</sup>

## Pentagon Sanctions?

The Department of Defense could also target the PLA's funding were President Trump to resurrect an executive order from his first administration. E.O. 13959, issued days after the November 2020 election, effectively banned the securities of companies on the Department of Defense list of Chinese military companies operating in the United States. Also known as the "1260H list" for the section of an act where it came into being, this congressionally-mandated report is produced by the Secretary of Defense, who has legal authority to determine which entities are Chinese military companies. President Biden subsequently replaced E.O. 13959 with his own directive (E.O. 14032), returning all sanctions authority to Treasury, but a precedent for DOD involvement had been established.

**President Trump could empower Secretary of Defense Pete Hegseth, an outspoken critic of the PRC, to sanction Chinese military companies by reissuing E.O. 13959. That national security directive made it illegal for U.S. persons to hold securities tied to Chinese military companies, which the Secretary of Defense is authorized to name. In other words, President Trump has once given the Pentagon de-facto authority to remove PLA-linked securities from U.S. capital markets and could do so again by simply resurrecting his own executive order.**



*U.S. Secretary of Defense Pete Hegseth*

## Capital At Risk

New sanctions on Chinese military companies would likely mean forced selling by American investors. The 1260H list was last updated in early January 2025, when the Biden Administration named Tencent Limited as a Chinese military company operating in the United States.<sup>17</sup> A technology conglomerate with subsidiaries engaged in artificial intelligence, online gaming and social media, Tencent has grown into the largest Chinese company by market capitalization. U.S. investors hold more than \$100 billion in Tencent stock.<sup>18</sup>

Another company added to the 1260H list this year is Contemporary Amperex Technology Co. Ltd. (CATL), the world's largest electric vehicle battery manufacturer. In addition to being a Chinese military company, CATL is accused of using forced labor in its business process. U.S. Senator Marco Rubio (now Secretary of State) last year petitioned the Biden Administration to add the battery-maker to the Uyghur Forced Labor Prevention Act (UFLPA) Entity List, a move that would have barred CATL goods from entering the United States.<sup>19</sup> American investors hold about \$6 billion in CATL stock, but that exposure may soon grow, with a dual listing in Hong Kong expected to attract additional U.S. capital.

Other 1260H list companies are lesser known than Tencent and CATL but still widely held by U.S. investors. CRRC Corporation Limited, a state-owned manufacturer whose parent was sanctioned as a Chinese Military-Industrial Complex company in June 2021, has attracted nearly \$1 billion of U.S. capital. SenseTime Group Inc., an artificial intelligence company on the Department of Commerce Entity List, is barred from accessing sensitive technology from the United States over national security concerns yet has received about \$350 million from Americans to date.<sup>20</sup>

## State Pensions Are Exposed to Chinese Military Companies

**National Security Index reviewed the international equity portfolios of several state and municipal pension funds, finding significant exposure to blacklisted Chinese companies at risk of expulsion from U.S. capital markets under AFIP.**

Figure 1 shows the number of constituents linked to a U.S. Government blacklist in the MSCI ACWI ex US Index, a common benchmark in retirement plans, covering about 85% of investable equities outside the United States. No less than twenty-one companies in the index are subsidiaries of entities under Chinese Military-Industrial Complex sanctions. At least eight companies are represented on the UFLPA Entity List, meaning they benefit from forced labor in Xinjiang Province, where the United Nations has documented genocidal activities against the Uyghurs.<sup>21</sup> Twenty-nine companies in the index were flagged as “Chinese Military Companies” by the Department of State in the final days of the first Trump Administration.<sup>22</sup>

**Figure 1. Sanctioned and Blacklisted Companies Inside MSCI ACWI ex US Index**

<b>NSI Count</b>	<b>U.S. Government blacklist or affiliation with sanctioned entity</b>
<b>15</b>	Department of Defense List of Chinese Military Companies Operating in the United States
<b>21</b>	Corporate affiliates of Chinese Military Companies Operating in the United States
<b>10</b>	Department of Commerce Entity List of Chinese companies deemed a national security concern
<b>14</b>	Corporate affiliates of Chinese companies on Entity List
<b>3</b>	Department of Commerce Military End User List of Chinese companies deemed to represent an unacceptable risk of diverting technology to the People’s Liberation Army
<b>24</b>	Subsidiaries of Chinese Military-Industrial Complex Companies subject to Department of Treasury sanctions
<b>29</b>	Communist Chinese Military Companies and subsidiaries identified by Department of State on January 14, 2021
<b>8</b>	Uyghur Forced Labor Prevention Act Entity List companies and subsidiaries participating in China’s campaign of oppression against ethnic minorities in Xinjiang Province

**State pension funds also hold the securities of Chinese defense contractors and MCF companies that are not currently on an official blacklist but that could be banned from U.S. capital markets under AFIP.** For example, Guangdong Hongda Holdings Group’s wholly owned subsidiary manufactures land-attack and anti-ship cruise missiles for the PLA. The *HD-1* missile system uses advanced solid-fuel ramjet technology meant to achieve supersonic speeds capable of defeating U.S. Navy defenses. The Vanguard Group is the largest U.S. holder of Guangdong Hongda common stock.<sup>23</sup>

**An NSI review of one state pension fund found that a \$2 billion allocation to international stocks benchmarked to the MSCI ACWI ex US index held 120 threat actors totaling approximately \$100 million in participant funds.** The 120 figure includes sanctioned and blacklisted companies represented in Figure 1 as well as companies that NSI has linked to the PRC’s military and security apparatuses through its open-source intelligence screening process.

## NSI Estimates More than \$200 Billion at Risk

The Trump Administration has accepted market volatility in pursuit of its trade policy objectives. Investors may reasonably assume that the same administration will tolerate Chinese stock losses to execute its America First Investment Policy. Secretary of Treasury Bessent, directed to use all necessary legal instruments to deter U.S. persons from funding China's military-industrial sector, says that "everything's on the table" to achieve the AFIP agenda.

The Trump Administration is effectively warning American investors that hundreds of Chinese military companies may soon be off limits to U.S. capital, yet asset managers and institutional consultants remain strangely indifferent, leaving billions of dollars in client assets exposed to sanctions risk. NSI estimates that more than \$200 billion could be immediately impacted by outbound capital controls if the Treasury Department sanctioned all blacklisted companies and Chinese defense contractors.

## Sanctions Risk Mitigation

Fiduciaries can mitigate sanctions risk by proactively removing Chinese military companies and human rights violators from equity portfolios. NSI offers international equity indexes that exclude such threat actors through a proprietary screening process driven by open-source intelligence tools and methods. NSI also offers research packages for institutional investors.

### **NSI indexes offered through VettaFi include:**

- Alerian National Security Emerging Markets Index (SNNSEM) – *available in exchange-traded fund*
- VettaFi National Security Emerging Markets Index (VFNSEM)
- VettaFi National Security Full World ex US Index (VFNSXUS)

## *About NSI*

National Security Index is an independent, veteran-owned company. NSI's core mission is to help Americans invest in foreign markets without compromising U.S. national security and human rights interests.

**For more information on these indexes, visit [www.vettafi.com](http://www.vettafi.com), or email:**

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## Notes:

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