

Canadian pension funds invested in Chinese companies complicit in human rights abuse

Background

In March 2021, Hong Kong Watch published a new report entitled: 'Red Capital in Hong Kong: The Invisible Hand transforming the city's politics.'

The report underlines the way that an influx of mainland money and assets changed the power dynamics in the city's politics and provides a warning to democratic governments about the way that Beijing has used 'economic coercion' as a key strategy of control in Hong Kong.

One of the report's key recommendations for Western parliamentarians is the urgent need to ensure that no state-pension funds invest in the stocks or bonds of firms complicit in gross human rights violations.¹

Environmental, Social, and Governance criteria

Environmental, Social, and Governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Investors are increasingly incorporating ESG data into the investment process to gain a fuller understanding of the companies in which they invest.

Sustainability has dominated ESG discussion to date. Asset managers and parliamentarians have focused the debate on pension fund investment in fossil fuel companies, with banks and investors introducing criteria to sift out investments that contribute substantial carbon emissions in favour of investing in green and renewable technology.

However, there is a growing discussion about ethical investment and human rights, with discussion in the USA and elsewhere about the role passive investment plays in financing companies complicit in human rights abuse from Myanmar to Xinjiang.

Despite diplomatic tensions, ties between China and Global finance are growing

Despite the situation in Hong Kong, the coronavirus pandemic, the detention of the two Michaels, and the US-China Trade War driving a growing fissure between China and the West, ties between China and Global Finance are growing, and the total value of China's stock market has hit record highs.²

- In 2020, foreign investors snapped up more than 1 trillion worth of RMB (C\$192.6 billion) worth of Chinese stocks and bonds.³
- Over the first eight months of 2020, the amount of Chinese onshore bonds held by foreign institutional investors increased more than 20 per cent year on year to Rmb2.8tn (\$421bn), according to Fitch Ratings. Foreign investors have accounted for about 12 per cent of all purchases of Chinese government and policy bank bonds this year, according to Refinitiv.⁴

¹ <https://www.hongkongwatch.org/all-posts/2021/3/2/new-report-hong-kong-watch-red-capital-report-warns-democratic-governments-to-learn-from-chinas-strategy-of-economic-coercion-in-hong-kong>

² <https://www.ft.com/content/7e2d1cae-8033-45b1-811c-bc7d4a413e33>

³ <https://www.ft.com/content/d9ac222d-90d8-4570-b89e-a99f1bd4829b>

⁴ <https://www.ft.com/content/8cf19144-b493-4a3e-9308-183bbcc6e76e>

- There is growing awareness in financial and policy circles of the need to scrutinise capital flows. The ethical implications of investing in equities tied to gross human rights abuses is going up the ESG agenda.

Canadian Pension funds are leading the investment charge in China

- In recent years, pension funds have emerged as the driver of Canadian investment in the Asia-Pacific region, growing from 1 per cent of Canada's total investment value in 2003 to 2007 to 25 per cent in 2013 to 2017.⁵
- Funds like the Canada Pension Plan Investment Board (CPPIB), have been investing in China for over a decade, slowly increasing their exposure to the world's second largest economy. For instance, the CPPIB's first international office was opened in Hong Kong in 2008.
- While the primary investment destination for Canadian pension funds remains the United States, the rise of Asia's economies and the changing global economic balance invariably has Canadian organizations looking to diversify. As of March 2019, the CPPIB had C\$103.7 billion or 26.5 percent of its total fund invested in the Asia Pacific region. Chief among these markets is China, where the CPPIB has invested C\$28 billion in mainland China and C\$42 billion in Hong Kong over the past decade.⁶
- Hong Kong Watch analysed the Chinese company investments of the following Canadian pension funds (which were publicly available):
 - The British Columbia Investment Management Corporation (BCI) which manages C\$171.3 billion of assets and is a leading provider of investment management services for British Columbia's public sector.⁷
 - The Canada Pension Plan Investment Board which manages over C\$475 billion in assets on behalf of 20 million Canadians.⁸
 - The Ontario Teachers' Pension Plan Board which manages around which manages C\$194 billion and administers the defined-benefit pensions for school teachers of the Canadian province of Ontario.⁹

Investing in companies complicit in human rights abuses

A number of alarming trends can be discerned in the investment practices.

Canadian pension funds linked to the Burma Campaign's 'Dirty List'

- Hong Kong Watch has found that Canadian pension funds have invested in companies that are destabilising the South East Asia region and Canada foreign policy interests. The Burma Campaign's 'Dirty List'¹⁰ shows that several Chinese companies which receive investment from Canadian pension funds have close partnerships with the military in Myanmar, which

⁵ <https://www.asiapacific.ca/media/news-releases/51830>

⁶ <https://truenorthfareast.com/news/canada-pension-fund-china-investment>

⁷ <https://www.bci.ca/wp-content/uploads/2020/10/BCI-Investment-Inventory-2020-Public-Equities.pdf>

⁸ <https://cdn2.cppinvestments.com/wp-content/uploads/2020/06/Foreign-Publicly-Traded-Equity-Holdings-ibfs-06-2020-en-v2.htm>

⁹ <https://www.otpp.com/documents/10179/1223191/2020+Annual+Report/ca2d6839-0ede-4848-9719-4ba6c65ba954>

¹⁰ <https://burmacampaign.org.uk/take-action/dirty-list/>

has just launched a coup and is the process of an extremely violent crackdown on protests (Burma Campaign, 2021).¹¹

Canadian pension funds linked to Chinese companies on the US PLA entities list

- In November 2020, the USA banned US companies from doing business with Chinese companies listed on an entities list of firms linked to the People's Liberation Army and responsible for developing China's military, intelligence, and security apparatus as part of a blurring of civilian and military capabilities known as 'Military-Civil Fusion'.¹²
- Hong Kong Watch has found that the CPPIB has C\$156m invested in four Chinese companies on the US PLA entities list, including C\$15m in the China Communications Construction Company¹³, C\$65m in China Mobile¹⁴, C\$19m in China United Network Communications¹⁵, and C\$57m in China National Offshore Oil Corp^{16,17}. BCI has C\$217.34m invested in 9 Chinese companies on the US PLA entities list.¹⁸

Hikvision

- Hikvision is one of the principle Chinese companies that has helped construct the surveillance state and the camps that over a million Uyghurs in Xinjiang are currently detained in. The firm registered patents back in 2017, which 'can detect, track, and monitor Uyghurs'¹⁹. It is therefore concerning that BCI is bankrolling this oppression through investing C\$45.33m worth of Canadian pensions in Hikvision.²⁰

Canadian pension funds and Chinese state-owned banks

- Chinese state-owned banks are the largest bankroller of Chinese state-owned enterprises, who in turn have spent the last decade buying up a substantial amount of strategic infrastructure in the West, as well as being the largest lenders to the Belt and Road Initiative which has been accused of exploiting developing nations and being used as a tool for 'debt-diplomacy'.

¹¹ BCI has C\$2m invested in China Communication Construction Group Company & C\$0.97m China State Construction Group. CPPIB has C\$15m invested in China Communication Construction Group Company.

¹² <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/chinese-military-companies-sanctions>

¹³ China Communications Construction Company was added to the US entities list for its work in developing military bases in the South China Sea and as one of the leading Chinese companies involved in the Belt and Road Initiative which has been accused of using 'debt diplomacy'.

¹⁴ China Mobile was added to the US entities list for its close links to the People's Liberation Army.

¹⁵ China United Network Communications was added to the US entities list for its close links to the People's Liberation Army and its work in developing military bases in the South China Sea.

¹⁶ China National Offshore Oil Corp was added to the US entities list, after the US Government ruled that it is owned and controlled by the People's Liberation Army.

¹⁷ <https://cdn2.cppinvestments.com/wp-content/uploads/2020/06/Foreign-Publicly-Traded-Equity-Holdings-ibfs-06-2020-en-v2.htm>

¹⁸ BCI has \$2m invest in China Communication Construction Group Company, \$104.64m China Mobile, \$56.51m CNOOC Ltd (China National Offshore Oil Corp), \$1.43m China Railway Construction Corpt, \$0.97m China state construction group, \$2.73m China Telecommunications Corp, \$2.29m China Unicom Hong Kong, \$1.44m CRRC Corp, & \$45.33m Hikvision. <https://www.bci.ca/wp-content/uploads/2020/10/BCI-Investment-Inventory-2020-Public-Equities.pdf>

¹⁹ <https://www.reuters.com/article/us-china-tech-uyghurs-idUSKBN29I300>

²⁰ <https://www.bci.ca/wp-content/uploads/2020/10/BCI-Investment-Inventory-2020-Public-Equities.pdf>

- BCI has C\$106.4m of Canadian pensioners' money in two Chinese state banks. China Construction Bank (\$91.98m) and the Bank of China's Hong Kong holdings (C\$14.42m).²¹
- CPPIB has C\$776m of Canadian pensioners money invested in five Chinese state-owned banks, including the Agricultural Bank of China (\$42m), Bank of China (\$16m), Bank of Communications (\$2m), China CITIC Bank Corp (\$3m), and Postal Savings Bank of China Co Ltd (\$713m).²²

Canadian pension funds invested in Alibaba and Tencent

- The e-commerce company Alibaba and the Chinese media company Tencent which owns WeChat are some of the most popular Chinese companies for Western investors. This investment may be problematic.
- Alongside Hikvision, Alibaba has produced facial recognition software that specifically targets Uyghurs and has helped construct the surveillance state and camps that over a million Uyghurs are currently detained in.²³
- Tencent and its subsidiaries have produced a number of bespoke technology products for the Chinese Government which censors mentions of the Uyghurs and Xinjiang on the Chinese internet and surveils users. The media company has also signed agreements with the Ministry of Public Security to promote "the influence and credibility" of police departments nationwide.²⁴
- The Ontario Teachers' Pension Plan Board has C\$943.9m invested in Alibaba and Tencent, BCI has just over a billion invested in Alibaba and Tencent, and CPPIB has C\$5.327bn invested in Alibaba and Tencent.²⁵

Recommendations

As tensions have risen between the West and China over its human rights record, its detention of the two Michaels, its encroachment in Hong Kong, and the increasingly aggressive posturing of the Chinese Communist Party, Canadian investment has poured into Chinese companies.

The public revelations about the participation of Chinese companies with a footprint in Canada who have been involved in the construction of China's surveillance state and the camps where over a million Uyghurs are being held, should at the very least raise concern and lead parliamentarians to investigate the involvement of Canadian pension funds.

As American lawmakers begin to move towards considering legislation to prevent US investment in companies complicit in human rights abuses and the EU finalizes a due diligence framework, Canadian policymakers should follow suit.

²¹ <https://www.bci.ca/wp-content/uploads/2020/10/BCI-Investment-Inventory-2020-Public-Equities.pdf>

²² <https://cdn2.cppinvestments.com/wp-content/uploads/2020/06/Foreign-Publicly-Traded-Equity-Holdings-ibfs-06-2020-en-v2.htm>

²³ <https://www.reuters.com/article/alibaba-surveillance/alibaba-facial-recognition-tech-specifically-picks-out-ughur-minority-report-idUKL4N2IX12H>

²⁴ <https://www.hrw.org/news/2020/09/28/chinese-tech-firms-fueling-beijings-repression>

²⁵ <https://www.otpp.com/documents/10179/1223191/2020+Annual+Report/ca2d6839-0ede-4848-9719-4ba6c65ba954>

1. Canadian parliamentarians should begin to view Canadian investment into companies complicit in human rights violations as an ESG issue.
2. Canadian parliamentarians should encourage the Government to create an entities list of companies where there is evidence of complicity in crimes against humanity and human rights abuse.
3. Canadian parliamentarians should work to task the Financial Consumer Agency of Canada through primary legislation to design rules to restrict investment in companies with particularly egregious records of complicity in human rights abuses.
4. Canadian parliamentarians should push the Government to ensure there is a ban on public pension funds being invested in Chinese companies who are complicit in the persecution and enslavement of the Uyghurs and the Tibetans, as well as the crackdown in Hong Kong.