

Kansas House Committee on Financial Institutions and Pensions Testimony

Michael Lucci, State Armor Action – March 4, 2024

Proponent of HB 2739 – Countries of Concern Divestment and Procurement Protection Act

Introduction

Good morning. Thank you, Chairman Hoheisel, Ranking Member Xu, and the Members of the Committee for allowing me to appear before you all today to support HB 2739, the Countries of Concern Divestment and Procurement Protection Act. My name is Michael Lucci, and I'm here on behalf of State Armor Action, of which I am the founder and CEO.

State Armor mission

I founded State Armor Action last year to recognize and confront a new policy area that states must face. We believe that states are now on the front lines in this new era of integrated global conflict. Therefore, the mission of State Armor Action is to provide state policy solutions to global security threats.

Transforming federalism

To achieve this goal, we believe that American federalism must be transformed from what is now a liability exploited by the Chinese communist party into a tremendous national security asset. Our unique system of federalism empowers states to act as the laboratories of democracy and to act nimbly yet rapidly in the face of threats. While states cannot be aggressors in a foreign policy sense, they do have the power to provide a unique new layer to national security.

Divestment

It is critical that we remove our pensions and capital from China. Chinese markets lack transparency, have poor returns, and pour capital into companies that develop China's military and surveil dissidents.

Most investments in sanctioned countries quickly lose value. After Russia invaded Ukraine, for example, the Van Eck Russia ETF lost one-third of its value within a few days. Additionally, Russia seized the assets of foreign investors in retaliation for the sanctions.

Additionally, investments in foreign adversaries are notoriously non-transparent. Heritage Foundation has noted "the Chinese government has a history of withholding, manipulating, and falsifying data for its own purposes." The country's leading investment bank "banned negative macroeconomic or market commentary." Companies critical of China in any way are bullied by the bureaucratic arm of the CCP, even companies as large and influential as Alibaba. And all countries have to allow the Chinese government to have "significant oversight and discretion over the conduct of ... business" and to "intervene or influence" operations at any time.

Under China's 2017 National Intelligence law, all Chinese organizations and citizens are required to "support, assist, and cooperate with national intelligence efforts." The Treasury Department noted that American investment in Chinese companies could be used to support the development of advanced warfare technologies. Major companies are even required to have an internal CCP committee within their organizations, with nearly 50% of all private companies having internal CCP committees as of 2018. Kansas should not be investing in these companies.

As recently as October of this year, the intelligence officials from the Five Eyes intelligence network publicly called on American companies to be on guard against rampant

intellectual property theft by Chinese corporations, including quantum technology, robotics, biotechnology, and artificial intelligence. A cybersecurity firm documented trillions of dollars in IP theft by Chinese state actors in just one operation. As many as one in five U.S. firms has said China has stolen their intellectual property within just the last year, totaling a cost of up to \$600 billion annually.

A report from the House Select Committee on the Chinese Communist Party writes that “no one knows what U.S. capital flowing into the PRC is funding. Given the heightened risk, this fundamental lack of information is antithetical to the American system of fair, orderly, and reliable markets and undermines the ability of U.S. regulatory agencies to protect investors.”

Even without a major conflict, and even if funding our adversaries wasn't a bad national security bet, the return on investments in foreign adversaries is subpar. Missouri Treasurer Vivek Malek recently won a vote with the state's pension board to divest from all Chinese assets, citing poor returns, national security risks, and the risk of funding human rights abuses.

Return on investments in various foreign adversaries has been uncompetitive or poor across the previous decades. Schwab documented that the return on the MSCI China Index performed on par with the S&P 500 from 2001 to 2023, at a time when China was experiencing a meteoric economic expansion that is expected to slow dramatically.

After Russia's invasion of Ukraine, the country has become a money pit for foreign investors, with an FT investigation showing Europe's largest companies losing “at least €100bn in direct losses from their operations in Russia.” The Shanghai Composite Index is down approximately 50% over the last 15 years. America's S&P 500 has tripled in the same time period.

Countering civil-military fusion strategy

Finally, divesting from Chinese companies is necessary to counter their Civil-Military fusion strategy. America must stop investing in the economy and technology of the country that seeks to displace the US as the leading global power.

Conclusion

To protect Kansas and American security, we must start by divesting state funds and stopping new procurements by state agencies from countries of concern. HB 2739 is an excellent way to do that. Thank you for the opportunity to testify, and I look forward to answering any questions.