

How to Understand and Identify Chinese Military Affiliated Companies

Recent U.S. government actions restrict financial institutions and multinationals from doing business with Chinese companies that support the Chinese military through the strategic policy of Military-Civil Fusion. Many private Chinese companies' ties to the military are not obvious, but public records can enable effective due diligence and uncover hidden risk.

Follow these tips to understand what military affiliation means and determine whether your Chinese partners, buyers, and counterparties may expose you to heightened risk.

Recent U.S. Regulations Target Chinese Military Companies

The U.S. has restricted business with companies tied to China's military in [a series of recent actions](#):

- [Expanded export license requirements](#) for military end users by the U.S. Department of Commerce's Bureau of Industry and Security (BIS) in Apr. 2020
- Publication of a [list of 31 "Chinese military companies"](#) operating in the U.S. under Section 1237 of the National Defense Authorization Act (1999) in Aug. 2020, with later additions
- Issuance of [Executive Order 13959](#) on Nov. 12, 2020, barring investment in companies on the Section 1237 list
- Publication of a "non-exhaustive" [list of 58 Chinese companies](#) considered military end users by BIS in Dec. 2020

These actions targeted some of China's largest private companies and expanded U.S. regulators' definition of a military-affiliated company, presenting new challenges for compliance teams.

What is Military Affiliation?

China encourages private companies to cooperate with its military in order to access advanced military use or dual use technologies. This cooperation takes place under a broad array of policies known as Military-Civil Fusion (MCF), many of which are implemented by local governments.

SAYARI

A P R I L 2 0 2 1

Military affiliation is not the same as military ownership or control. In fact, most military affiliated companies are privately owned, and many are closely integrated in the global economy. This makes them difficult to identify and elevates the risk they pose to unwitting foreign partners.

Use Public Records to Identify Red Flags

Public data can help determine whether a company has ties to the Chinese military. China requires companies to disclose key information, including shareholders and directors, addresses, ID numbers, and business purpose. This data can be accessed by the public through China's federal corporate registry. Here are a few red flags from public data that could indicate military affiliation:

- **Is it owned by a military-affiliated company on a government watchlist?** The Section 1237 and BIS Military End User lists include some of China's largest private companies, which have hundreds of direct and indirect subsidiaries at high risk of military affiliation. Most have no obvious ties to the military or the Section 1237 list.

Using shareholder information in public records, our analysts have identified [more than 600 active companies that are majority owned](#) by the companies on the Section 1237 and BIS Military End User lists. [You can request free access to that dataset here.](#)

- **Does it use the term "military civil fusion" in its name or business purpose?** Some companies wish to signal their support to the military to Chinese customers and use the term "military civil fusion" (军民融合) in their Chinese name or formal business purpose.
- **Do any of its shareholders use the term "military civil fusion" in their names?** Some local governments manage investment funds that support military affiliated companies as shareholders. Like other shareholders, these funds are disclosed in Chinese corporate records and sometimes use terms like "military civil fusion" in their name.
- **Is it registered to an address that includes the term "military civil fusion"?** Local governments encourage companies to cooperate with the military by providing office space and similar resources. Any company [registered to an address like "Military Civil Fusion Innovation Center"](#) or "Military Civil Fusion Road" warrants enhanced scrutiny.