

## **Summary of Select Committee Investigation Findings on American Venture Capital Fueling the PRC Military and Human Rights Abuses**

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October 16th, 2022. General Secretary Xi Jinping marches down the Great Hall of the People in Beijing to thunderous applause from the Chinese Communist Party's top elites.

Among the most important priorities in his address to the Party: For China to “resolutely win the battle of key and core technologies.”

Xi's vision in his own words is to build a “great wall of steel” – an effort to develop cutting-edge technology that will result in China dominating the future of warfighting, mastering domestic and global surveillance, and commanding the global economy throughout the 21st century.

To execute this vision, China's 14th Five Year Plan revealed Xi's solution.

Foreign venture capital investments, particularly from the United States of America, have been key for China to become a world leader in science and technology.

Specifically, in the fields of artificial intelligence and semiconductors, U.S. venture capital firms have financed Chinese companies that serve as core building blocks in Xi's “great wall of steel” and acutely threaten our own national security.

U.S. venture capital firms have invested in Chinese companies that both created dangerous People's Liberation Army weapon systems and developed Orwellian technologies that have enabled the CCP's totalitarian surveillance state and human rights abuses.

Last July, the Select Committee launched a bipartisan investigation to sound the alarm on these troubling investments and craft policies to prevent American dollars from subsidizing the Chinese Communist Party's malign measures.

The investigation centered on five of the top U.S. VC firms investing in Chinese AI and semiconductor companies: Sequoia Capital, Qualcomm Ventures, Walden International, GSR Ventures, and GGV Capital.

Over the past 6 months, the Committee reviewed documentation of hundreds of investments provided by these firms.

What we found was far beyond anything we anticipated.

Our findings revealed that these five funds alone invested at least \$3 billion into Chinese companies that supported the PRC's military, enabled China's human rights abuses, and allowed this rival nation to develop its own semiconductor sector – an industry that the CCP sees as vital to its authoritarian goals. That includes more than \$1.9 billion into PRC AI companies and \$1 billion into over 150 PRC semiconductor firms.

These investments have financed the development of some of the most threatening Chinese national security capabilities.

Examples include companies like 4 Paradigm – which created AI for the Chinese military's autonomous weapons systems – BGI – which collects genetic data from Americans that it then uses for research with the Chinese military – and semiconductor chips for Phytium, which help power China's nuclear and hypersonic weapons.

These U.S. venture capital firms have also invested over \$130 million in Chinese AI companies that the U.S. government blacklisted for supporting the Chinese Communist Party's genocide and human rights abuses.

One company, Daqo, owns Xinjiang Daqo New Energy. This company produces polysilicon, the primary raw material needed to make both semiconductors and solar cells. It does so using Uyghur forced labor. Another, Intellifusion, created facial recognition technology that is used in Xinjiang as part of the ongoing genocide.

Sequoia Capital even put over \$1 billion into helping CCP-controlled firm Bytedance, TikTok's parent company, expand overseas. Not only has Bytedance partnered with the Chinese Ministry of Public Security to crack down on internal dissent within China, but according to the FBI in sworn testimony, it has the ability to control the software on millions of Americans' devices through TikTok.

These billions in U.S. investment do not only come from the pockets of wealthy venture capitalists. Average American families are unwittingly contributing as well.

All five firms that the Select Committee investigated have U.S.-based investors, —limited partners that include institutional entities like university endowments, family offices, and pension funds.

While they might not know it, Americans whose retirement accounts are invested in these five venture capital firms are contributing part of their hard-earned paycheck to it furthering the Chinese Communist Party's authoritarian ambitions.

And American venture capital firms have brought far more than just money to the table.

The greatest assets that venture capitalists offer are know-how and networks.

Coupled with their checkbooks, these five venture capital firms provided Chinese AI and semiconductor companies with expertise, global networks, reputational benefits, and access to global talent.

Without these critical U.S. investments, would the CCP have been able to build world-class semiconductor and AI sectors in China?

Because the Select Committee only reviewed five venture capital firms investing in two specific sectors, our investigation merely scratched the surface of the danger that American investment into Chinese industry poses to our national security.

This danger comes in the form of three main threats.

First, U.S. venture capital finances the production of weapons systems designed to kill Americans and advance China's warfighting capabilities.

Should the United States ever face an armed conflict with China, American men and women in uniform could very well have to evade fire from a Chinese drone or aircraft built using money from that soldier's own retirement fund.

Second, U.S. venture capital investments boost the CCP's ability to establish leverage and control over American business.

Over the course of our investigation, multiple U.S. firms expressed apprehension about cooperating with the bipartisan Select Committee. They were afraid, they said, of CCP retaliation. Some even experienced outright intimidation. One firm told us that its personnel in China were "scared to death" about providing basic fund information because of potential repercussions.

These findings show that the CCP already has the ability to hold major American executives and companies hostage.

If this is how the Chinese Communist Party treats business partners in peace time, think about how it could act if there's ever a conflict.

Third – U.S. investment in problematic Chinese companies critically weakens our nation's own economic sovereignty and security.

Flush with funding from U.S. venture capitalists, Chinese AI and semiconductor companies now possess robust technological capabilities and industrial capacity.

If we continue on our present course, instead of seeing innovation championed by American companies, we will instead witness the CCP and their state-sponsored firms gaining control of critical technologies that will drive the next century of economic growth.

Imagine a world where Xi Jinping, alone, can dictate the flow of the world's most advanced semiconductors, or control AI software powering global banking and perhaps even your child's favorite social media app.

This is a fast-approaching dystopia that we need to avoid.

So how can we stop Xi's dream from becoming our nightmare?

The Select Committee's report makes two key recommendations and outlines the steps to get them done.

First, Congress must restrict U.S. investment in entities tied, directly or indirectly, to the Chinese military, to its forced labor program, or its ongoing genocide.

Second, Congress must codify restrictions on U.S. investment in areas related to China's critical and emerging technologies, military capabilities, and human rights abuses.

We must act now and stop fueling our own destruction.

In following these two recommendations, Americans will not only safeguard our economy and national security, but champion human dignity, fundamental rights, and the livelihood of millions here at home and around the world.