POLITICS

U.S. state laws take aim at pension investment in China

Local governments move to divest from Chinese-owned companies amid geopolitical tensions

Hang Seng stock index is displayed in Shanghai. U.S. state pensions are divesting from China amid geopolitical tensions. © Reuters

JACK STONE TRUITT, Nikkei staff writer May 30, 2024 21:39 JST

NEW YORK -- U.S. states are forcing public pension funds to divest from Chinese-owned companies, citing national security risks amid rising tensions between the world's two largest economies.

Florida Gov. Ron DeSantis signed a law this month that requires the state investment board to cease investing any of its $250 billion of assets in any entities with more than 50% ownership by the Chinese government, Chinese Communist Party, or Chinese military. It also requires the divestment of any current direct holdings in China "to ensure foreign adversaries like China have no foothold in our state," DeSantis said on X, after signing the bill into law.

Roughly $277 million of Florida's primary pension fund is exposed to Chinese state-owned entities, or 0.16% of the entire fund, according to a March legislative analysis of the bill.

Its biggest investment is $54 million in the China Construction Bank, followed by two holdings worth a combined $46 million in Kweichow Moutai Co., a liquor company.

The Florida law is similar to one Indiana passed in May last year prohibiting the public employee pension fund from investing in entities on, or connected to, federal exclusion lists or those controlled by the Chinese government or Chinese Communist Party.

Illinois, Kansas, Missouri and New Jersey all have legislation currently moving through state legislatures relating to mandatory divestment of state pension funds from China.

Indiana's $50 billion state pension fund offloaded $526 million of investments connected to China last year, according to state Sen. Chris Garten, who co-authored the bill.

The fund still has $711 million in investments with exposure to China that are exempt from the divestment mandate, per the pension oversight committee.

"Americans are in direct and daily conflict with the Communist Chinese Party, and I could not reconcile the fact that over $1 billion of hardworking Hoosiers' pension dollars were being invested in Communist Chinese Party interests last year," Garten told Nikkei Asia, using the nickname for people from Indiana.

The Florida investment board must develop a divestment blueprint by Sept. 1 and exit completely in two years following the plan. Meanwhile, Indiana's pension fund said it had nearly completed divestment last September, but is still working to divest the remaining $40 million on a time line meant to 'minimize' the impact on the fund.

The state bills follow a decision in November by the U.S. federal government to exclude China- and Hong Kong-listed stocks from its pension portfolio and broader skepticism of what kind of investment ties to China is appropriate for U.S. capital held by public funds.

"The issue here is risk and being able to pull your money out" of China, Andrew King, executive director of Future Union, a nonpartisan advocacy group focused on democratic capitalism and transparency in corporate investment.

King added that public pension fund investments have helped China’s tech innovation that now compete with U.S. companies.

While laws have passed in Florida and Indiana, some states have failed to push through similar legislation. In April, Arizona Gov. Katie Hobbs vetoed a divestment bill passed by the state legislature over concerns of economic growth.

"The political climate [today] is one focusing more on the use of pension assets as a policy tool and a tool for messaging broader policy goals," said Joshua Lichtenstein, a partner with law firm Ropes & Gray who advises state pension fund managers on how to navigate restrictions like the recent divestment bills.

Using pension funds as a means of a larger political aim can make things tricky for asset managers who must balance responsibility to the fund with complying with state laws or other top-down mandates on how to invest.

"They have to keep the best interest of the plan participants in mind, so they're not looking for fire sale prices," Lichtenstein said.