

The Wire *China*

COVER STORY

The Surveillance Stake

A Chinese company backed by American pension fund money and built by one of world's premier private equity firms publicly touted its ties to China's surveillance apparatus. Is U.S. outbound investment in trouble?

BY KATRINA NORTHROP — FEBRUARY 20, 2022



Illustration by Sam Ward

In March 2020, a town 30 miles northeast of Shanghai's city center was scrambling to respond to the unfolding pandemic. In its effort to control the spread of Covid-19, the town of Shuxin announced that the government would be implementing a new technology in its government buildings: The "CUE All-in-One Machine."

A sleek black device with a camera at eye level, a wide square screen in the middle and two skinny poles connected to wheels at the bottom, the All-in-One Machine uses facial recognition technology and thermal imaging to identify individuals who are walking by and take their temperature. It was produced by [Cue Group](https://cue.group/#/) (<https://cue.group/#/>), a China-based portfolio company held by one of the world's biggest financial services firms, the American private equity giant KKR & Company.



The CUE All-in-One Machine. Credit: Cue Group

But the device's utility goes far beyond pandemic prevention. As Cue's head of new retail products made clear during the 2020 [announcement](https://cue.group/#/newsdetails?id=2020_005) (https://cue.group/#/newsdetails?id=2020_005) in Shuxin, even after Covid-19 subsides, the device could continue to be used to “collect daily passenger flow, record visitors' information, send warnings about abnormal passenger flow, prevent incidents involving many people gathering” and even “recognize specific blacklisted people.”

Why would Cue Group, a digital marketing company that New York-based KKR established in 2017, develop a device with such wide ranging surveillance applications? The answer may be linked, in part, to the Ministry of Public Security (MPS), one of the architects of China's domestic surveillance apparatus.

An investigation by *The Wire* has determined that Cue — a relatively young firm backed by American pension fund money and built by one of America's premier private equity firms — promoted a collaboration with a Chinese government agency known for operating the world's most sophisticated surveillance network, all at a time when critics have alleged that this vast spying and monitoring system was being used to engage in [human rights abuses](https://www.nytimes.com/interactive/2019/11/16/world/asia/china-xinjiang-documents.html) (<https://www.nytimes.com/interactive/2019/11/16/world/asia/china-xinjiang-documents.html>) against Uyghur minorities in the country's far northwest region of Xinjiang.

While it is unclear how the technology developed by American-backed Cue has been deployed in China, both KKR and Cue have scrambled to distance themselves from any association with the surveillance industry, telling *The Wire* this week that Cue remains a digital marketing company. A spokesperson for New York Stock Exchange-listed KKR said the firm was unaware of any collaboration between Cue and China's security forces and noted that KKR had recently reduced its controlling stake in Cue, one of its 16 Chinese portfolio companies, and now has a minority stake. (See KKR's complete statement [here](https://drive.google.com/file/d/1BI2Nz2Jihc4EMpmseGFvNcVOCxHSBoWk/view?usp=sharing) (<https://drive.google.com/file/d/1BI2Nz2Jihc4EMpmseGFvNcVOCxHSBoWk/view?usp=sharing>)).

But Shanghai-based Cue promoted its ties to MPS on its website for nearly two years. This week, after being questioned about its partnership with the [Video National Engineering Laboratory Zhuhai Innovation Center](http://nelivaicz.com.cn/) (<http://nelivaicz.com.cn/>), a government laboratory under MPS, Cue appears to have edited a web page to remove passages touting the collaboration on the All-in-One Machine. In a statement to *The Wire*, Cue said there never was any collaboration with the state lab, even though the Zhuhai lab confirmed in an email to *The Wire* that it had at one time collaborated with Cue and one of its wholly-owned subsidiaries. The lab did not describe the exact nature of the collaboration.

Screenshot from February 10th, 2022

政企同心，携手抗疫 | 开域一体机防疫效果获赞

2020-04-02

为应对新冠疫情，协助政府正常提供公共服务，保障人民出行安全，开域集团与上海市竖新镇政府展开积极合作，率先在镇政府办公大楼部署了开域疫情防控实时监测一体机（以下简称“开域一体机”）。3月25日，镇政府领导和开域集团主要负责人就一体机的防疫部署效果做了实地考察，现场测试了“开域一体机”在无接触快速测温、口罩遮挡下的人脸识别等功能，均取得了突出效果。

开域一体机是由开域集团、珠海中盾之星科技有限公司与视频国家工程实验室(珠海)创新中心共同紧急研发的防疫产品，具有AI智能无接触式测温以及14天迁徙轨迹追踪两大核心功能。支持20人同时测温，快速有效地筛查区域内的发热个体，锁定同行及周围个体，并及时预警。同时，结合开域数据管理平台海量设备信息及行为信息，发现区域中来自疫区的客流，及时报警，以便迅速反应，有效做好防护措施。



Screenshot from February 17th, 2022

政企同心，携手抗疫 | 开域一体机防疫效果获赞

2020-04-02

为应对新冠疫情，协助政府正常提供公共服务，保障人民出行安全，开域集团与上海市竖新镇政府展开积极合作，率先在镇政府办公大楼部署了开域疫情防控实时监测一体机（以下简称“开域一体机”）。3月25日，镇政府领导和开域集团主要负责人就一体机的防疫部署效果做了实地考察，现场测试了“开域一体机”在无接触快速测温、口罩遮挡下的人脸识别等功能，均取得了突出效果。



After being approached by *The Wire*, Cue Group appears to have removed the highlighted sentence on their website, says: “The CUE All-in-One Machine is an epidemic prevention product jointly and urgently developed by Cue Group, Zhuhai Zhongdun Star Technology [a subsidiary of Cue Group] and the National Video Engineering Laboratory (Zhuhai) Innovation Center.” Source: [Cue Group \(https://cue.group/#/newsdetails?id=2020_005\)](https://cue.group/#/newsdetails?id=2020_005)

The discovery that a KKR-backed firm may have jointly developed a surveillance system with a lab connected to the Ministry of Public Security comes at a challenging time for U.S. companies doing business in China. A growing number of critics have pressured firms to divest or take a stand on China’s human rights violations, especially what some have [described \(https://www.nytimes.com/2021/01/19/us/politics/trump-china-xinjiang.html\)](https://www.nytimes.com/2021/01/19/us/politics/trump-china-xinjiang.html) as a genocide against Uyghurs. A focal point of those efforts has been evidence of China’s [surveillance state \(https://www.nytimes.com/2019/12/17/technology/china-surveillance.html\)](https://www.nytimes.com/2019/12/17/technology/china-surveillance.html) — the vast nets of facial recognition cameras, online monitoring and physical checkpoints that have transformed the [Xinjiang region \(https://www.nytimes.com/2019/05/22/world/asia/china-surveillance-xinjiang.html\)](https://www.nytimes.com/2019/05/22/world/asia/china-surveillance-xinjiang.html) into something akin to a modern day Gulag.

The Trump and Biden administration have each announced a raft of economic sanctions against Chinese companies and government entities for their involvement in human rights violations, and the surveillance industry has been particularly scrutinized. Prominent Chinese firms like [SenseTime \(https://www.ft.com/content/8ee73509-e364-494e-b4c8-ft9a4f675078\)](https://www.ft.com/content/8ee73509-e364-494e-b4c8-ft9a4f675078), [Megvii Technology \(https://www.bloomberg.com/news/articles/2020-04-06/u-s-blacklist-hurt-china-ai-giant-s-sales-ahead-of-ipo-attempt\)](https://www.bloomberg.com/news/articles/2020-04-06/u-s-blacklist-hurt-china-ai-giant-s-sales-ahead-of-ipo-attempt), [iFlytek \(https://asia.nikkei.com/Economy/Trade-war/US-sanctions-8-China-tech-companies-over-role-in-Xinjiang-abuses\)](https://asia.nikkei.com/Economy/Trade-war/US-sanctions-8-China-tech-companies-over-role-in-Xinjiang-abuses) and [Dahua Technology \(https://www.nytimes.com/2019/10/07/us/politics/us-](https://www.nytimes.com/2019/10/07/us/politics/us-)

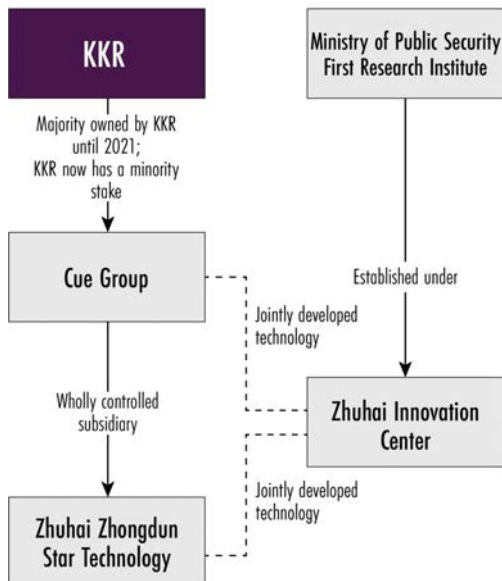
[to-blacklist-28-chinese-entities-over-abuses-in-xinjiang.html](#)) have been blacklisted for providing technology to or collaborating with the Chinese government's surveillance efforts. Amid both the public scrutiny and well-documented human rights concerns, analysts say that any association with the MPS is a huge red flag for global investors.

The fact that KKR had a controlling stake in Cue Group while Cue was openly promoting its connection to the MPS lab is "a wake up call" to global companies, says [Michael Santoro](#) (<https://www.scu.edu/business/management/faculty/santoro/>), a corporate ethics expert at the Santa Clara University's Leavey School of Business. If a private equity firm's portfolio company works with China's surveillance apparatus, he says, "It could hardly be a more direct line between their investment and human rights violations."

Cue's ties to the state lab were first uncovered by researchers working for an American labor union, the [United Food and Commercial Workers International Union](#) (<https://www.ufcw.org/>) (UFCW), which had been scrutinizing the private equity firm because of its deals in the grocery business. *The Wire* undertook its own independent investigation into the case during the past six weeks, reviewing corporate filings in the U.S., Germany, Singapore and China.

Tangled Affiliations

According to Cue's company statements and the Zhuhai Innovation Center, Cue Group and Zhuhai Zhongdun worked with the Ministry of Public Security affiliated Lab on technology development. Cue Group and KKR deny that there was any collaboration.



Source: Corporate records, news releases, and the Zhuhai Innovation Center website

According to the records, KKR — which is the second largest private equity group in the world with [\\$459 billion](#) (<https://www.kkr.com/kkr-today>) worth of assets under its management — holds a stake in Cue through its KKR Asian Fund III. The limited partners (or investors) in Asian Fund III include some of America's biggest state pension funds, including the New York State Common Retirement Fund, the California State Teachers' Retirement System and the Florida State Board of Administration. Courtney Alexander, the researcher who compiled the material on Cue at UFCW, calls this investment "unconscionable for state pension funds."

While there are no indications that Cue or KKR did anything improper, and while details of the partnership remain unclear, Cue's effort to build ties with China's surveillance state comes amid increased calls within the U.S. to better screen outbound investment to China. Currently, Chinese investment in the U.S. is reviewed by the [Committee on Foreign Investment in the United States](#) (<https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius>), or CFIUS, but no such mechanism exists for U.S. investment in China. New legislation already in the works to create a kind of "reverse" CFIUS (<https://www.atlanticcouncil.org/blogs/econographics/is-the-us-going-to-screen-outbound-investment/>) could

catch problematic investments in the Chinese surveillance industry, for example, and it is gaining ground.

"There is a lot of momentum behind it," says [Martijn Rasser](#) (<https://www.cnas.org/people/martijn-rasser>), a senior fellow at the Center for a New American Security (CNAS) and former analyst at the CIA, where he focused on foreign emerging technologies. Cue Group "could become a poster child for exactly why this legislation is of interest in the White House and Congress."

THE PIVOT



Cue Group's CEO Shi Kan, on board what appears to be company's private jet. *Credit: Cue Group*

In October 2019, when the Zhuhai Innovation Center was unveiled, Cue Group's CEO, Shi Kan, attended the opening ceremony

(<https://tech.chinadaily.com.cn/a/201910/28/WS5db690e7a31099ab995e8371.html>). The Center falls under the Ministry of Public Security's First Research Institute, which develops policing technology for Chinese authorities, and it was established to develop video and A.I. technology for public security applications, according to its website (<http://nelivaicz.com.cn/plus/list.php?tid=1>).

Shi, who is often photographed in a black suit with no tie, is something of a big data evangelist and serial entrepreneur. After graduating from Shanghai Jiaotong University in 2003, he went on to work for Intel in China and VMware, an American cloud computing company, in California, according to his LinkedIn profile. He started his first digital marketing company in 2010, which he later sold (http://quotes.money.163.com/f10/ggm_x_300383_2018017.html) to Beijing Sinnet Technology, a major Chinese tech firm.¹

At 40 years old, Shi seems to have his hands full. He is an executive in approximately 20 Chinese companies, including Cue Group, and he holds a stake of at least 50 percent in 11 other Chinese firms, according to WireScreen. The vast majority of those companies revolve around digital marketing or information technology, and some are linked to KKR holdings.² KKR declined to comment on Shi's other business dealings.

It is unclear how Shi initially got connected with KKR, but in 2017 the American private equity firm combined



In a press account about the unveiling of the Zhuhai Innovation Center, Shi Kan appears to be pictured third from the right.

(<https://www.businesswire.com/news/home/20180320006664/en/KKR-Launches-China%E2%80%99s-First-One-Stop-Digital-Marketing-Company-Cue-Co.>) four separate Chinese digital marketing firms, including one controlled by Shi³, to form Cue and appointed Shi as CEO. According to a profile (<https://finance.ifeng.com/c/7fO751KmDmZ>) of Shi, it was his idea to merge the four companies, saying, "We are definitely not 1+1+1=4, our cooperation is 1+1+1+1 > 40!" Although many Chinese entrepreneurs were focusing on ecommerce at the time, Shi said he saw value in big data and digital marketing. As he described it, he "chose to sell water when everyone else was mining gold."

In a KKR press release (https://media.kkr.com/news-details/?news_id=dbb935a8-1e48-4ba1-9c1f-e62a664bd558&type=1&download=1) about Cue, Paul Yang, the head of KKR Greater China, said, "As China's enterprise services and digital media industry undergo profound changes, we believe Cue has excellent

prospects for growth and the wide-ranging capabilities and expertise to help its clients achieve business success.”

Although KKR declined to comment on when they reduced their stake in Cue, corporate records reviewed by *The Wire* suggest that KKR had a majority stake until six months ago. Other global investment firms involved include California-based [Princeville Capital](https://www.princeville-capital.com/) (<https://www.princeville-capital.com/>), South Korea-based [Anchor Equity Partners](https://www.anchorpe.com/) (<https://www.anchorpe.com/>) and Hong Kong-based [Baring Private Equity Asia](https://www.bpeasia.com/) (<https://www.bpeasia.com/>). According to corporate records reviewed by *The Wire*, Baring and a firm called Super Proton (whose identity is unclear) were given joint control over Cue last year.⁴



KKR and Cue Group executives pose for a picture at a launch event for Cue Group in 2018.

Credit: Cue Group

In its five years of existence, Cue seems to have thrived as a digital marketing company. The company [grew](https://cue.group/#/introduction#introduction) (<https://cue.group/#/introduction#introduction>) to have 2,000 employees in Beijing, Shanghai and Chongqing, as well as in South Korea. In 2019, the company [reportedly](https://www.reuters.com/article/us-cue-ipo/chinese-digital-agency-pushes-on-with-400-million-u-s-ipo-sources-idUSKBN1XI18D) (<https://www.reuters.com/article/us-cue-ipo/chinese-digital-agency-pushes-on-with-400-million-u-s-ipo-sources-idUSKBN1XI18D>) weighed a \$400 million IPO in the U.S., though that stock offering was later canceled. According to its promotional materials, Cue has worked with companies such as Baidu, Huawei and Oppo, providing [services](https://www.linkedin.com/feed/update/urn:li:activity:6831465420952879104/) (<https://www.linkedin.com/feed/update/urn:li:activity:6831465420952879104/>) like digital advertising and mapping out where foot traffic is most concentrated within a retail space.

But using big data to help companies target customers and using big data to help the government target individuals is not that dissimilar. After the Zhuhai Innovation Center opened, one of Shi's other companies, a wholly-owned subsidiary of Cue Group called Zhuhai Zhongdun Star Technology, started a “Safe Campus” project with the lab, according to accounts in the Chinese press. The project was [described](https://tech.chinadaily.com.cn/a/201910/28/WS5db690e7a31099ab995e8371.html) (<https://tech.chinadaily.com.cn/a/201910/28/WS5db690e7a31099ab995e8371.html>) as a tool to monitor school campuses with facial recognition and big data processing, and in press accounts Shi is called a strategic partner in that effort. The Zhuhai Innovation Center confirmed to *The Wire* that the lab had collaborated with Zhuhai Zhongdun, but it did not reference the Safe Campus project and the lab said the collaboration has since ended.

Cue's spokesperson told *The Wire* that neither Cue nor any of its subsidiaries have worked with the Center, and that Cue “has not participated in the ‘Safe Campus’ project nor received any revenues related to the project.”

智慧城市解决方案

采用先进的AI、物联网、云计算及大数据等技术，为不同种类的空间提供数字化管理与监测能力，提高空间的用户体验与运营效率。围绕校园安全风险预警及处理机制为核心任务，搭建联合政府各部门数字化安防智能平台，运用领先的风险模型预警机制，结合安全应急处理方法，全方位及时高效智能化保护学生安全，实现真正平安校园的学习环境。除此之外还全面部署机场数字化、综合安防管理等应用场景。



Cue's website markets a "Smart City" product, which appears to be very similar to the "Safe Campus" project.

Credit: [Cue Group \(https://cue.group/#/digital-technology/\)](https://cue.group/#/digital-technology/)

When the pandemic broke out, Cue Group seems to have turned to projects more closely aligned with Zhuhai Zhongdun and the Zhuhai Innovation Center. In addition to its "All-in-One Machine" — which, according to recent [press releases \(https://baijiahao.baidu.com/s?id=1674273670032829130&wfr=spider&for=pc\)](https://baijiahao.baidu.com/s?id=1674273670032829130&wfr=spider&for=pc), has been deployed in government agencies, businesses, schools, restaurants, shopping malls, train stations and bus stations — Cue's website [markets \(https://cue.group/#/digital-technology/\)](https://cue.group/#/digital-technology/) a "Smart City" product, which appears to be very similar to the "Safe Campus" project and is described as using A.I., cloud computing and big data processing to provide a digital security platform alongside various government departments.

A Cue spokesperson told *The Wire* that the All-in-One Machine was "developed solely by Cue & Company in-house. This product was developed at the onset of the Covid-19 pandemic, at which point Cue & Company felt a keen sense of social responsibility to help develop a product to screen individuals for fever and high temperature to serve communities." When asked why they edited the webpage referring to the collaboration, the Cue spokesperson said, "we have updated it recently to reflect the accurate fact."

KKR also denies that Cue worked with the Zhuhai Innovation Center. "To our knowledge," said a KKR spokesperson, the product was developed in-house. "We further understand the 'all-in-one machine' was developed without any collaboration with the Video National Engineering Laboratory (Zhuhai) Innovation Center."

But the Zhuhai Innovation Center's admission that it worked with Cue and its subsidiary, Zhuhai Zhongdun, is striking. The Center is a joint collaboration between a state security contractor that is wholly owned by MPS's First Research Institute, and the Chinese Academy of Sciences Institute of Automation (CASIA), an academic body that develops mass surveillance technology and, according to a recent [Hoover Institution report \(https://www.hoover.org/research/eyes-wide-open-ethical-risks-research-collaboration-china\)](https://www.hoover.org/research/eyes-wide-open-ethical-risks-research-collaboration-china), collaborates with MPS and the People's Liberation Army.

Moreover, the [lab director](http://www.neliva.com.cn/Index/lists/catid/11.html) (<http://www.neliva.com.cn/Index/lists/catid/11.html>), overseeing the Zhuhai Innovation Center from Beijing is Qiu Baoli, a longtime public security official who once served as deputy director of the public security bureau at the [Xinjiang Production and Construction Corps](https://www.thewirechina.com/2021/10/31/the-corps-of-xinjiang/) (<https://www.thewirechina.com/2021/10/31/the-corps-of-xinjiang/>), which has been sanctioned by the U.S. government for human rights abuses against the Muslim Uyghur population.

“Look at the players integral to this Center,” says Jeffrey Stoff (<https://www.hoover.org/profiles/jeffrey-stoff>), a former U.S. government official who worked on critical technology protection and recently published a [report](https://www.hoover.org/research/eyes-wide-open-ethical-risks-research-collaboration-china) (<https://www.hoover.org/research/eyes-wide-open-ethical-risks-research-collaboration-china>) with Stanford’s Hoover Institution about CASIA. Given the Center’s acknowledgement of the collaboration, “KKR is directly associating with parts of the state that develop surveillance that is responsible for human rights abuses. Even if the particular technology that [KKR] is investing in is deployed for the notionally benign use of temperature detection and Covid detection, it can be easily diverted to reprehensible applications. That needs to be assumed.”

Cue Group maintains it is still a digital marketing company first and foremost. The All-in-One Machine, the Cue spokesperson said, “is not part of Cue & Company’s core business and will also not be the focus area going forward.”

But as recently as August, Cue Group made a \$15.4 million investment in a Chongqing-based autonomous and electric vehicle startup, according to Pitchbook. Shortly afterwards, the company released a [video](https://www.linkedin.com/company/cuegroup/videos/) (<https://www.linkedin.com/company/cuegroup/videos/>) of a Cue-brand unmanned vehicle — resembling a tiny tank — that “integrated with various A.I. technologies, [and is an] ideal product to utilize in public security, firefighting, military and engineering scenes.” The video depicts a woman tied up with a bag over her head and two men threatening her with a bat; the small Cue vehicle, according to the description, is able to pick up on the body posture of the people in order to understand the dangerous situation.

Cue did not respond to questions about why they invested in the autonomous vehicle company.



Screenshots from a marketing video for a Cue-brand unmanned vehicle that “integrated with various A.I. technologies, [and is an] ideal product to utilize in public security, firefighting, military and engineering scenes.”
Source: LinkedIn (<https://www.linkedin.com/company/cuegroup/videos/>)

Regardless of why Cue decided to pursue the public security and surveillance market, the key question is whether KKR knew about it. Three KKR executives in China sat on Cue Group’s board until last year, according to corporate records. And [Xu Kang](https://www.kkr.com/our-firm/leadership/kang-xu) (<https://www.kkr.com/our-firm/leadership/kang-xu>), a director in KKR’s Shanghai office who “played a significant role in KKR’s investments in Cue,” according to KKR’s website, is still on the board of the holding company in Singapore that owns Cue Group, as of the company’s latest filings in November.⁵

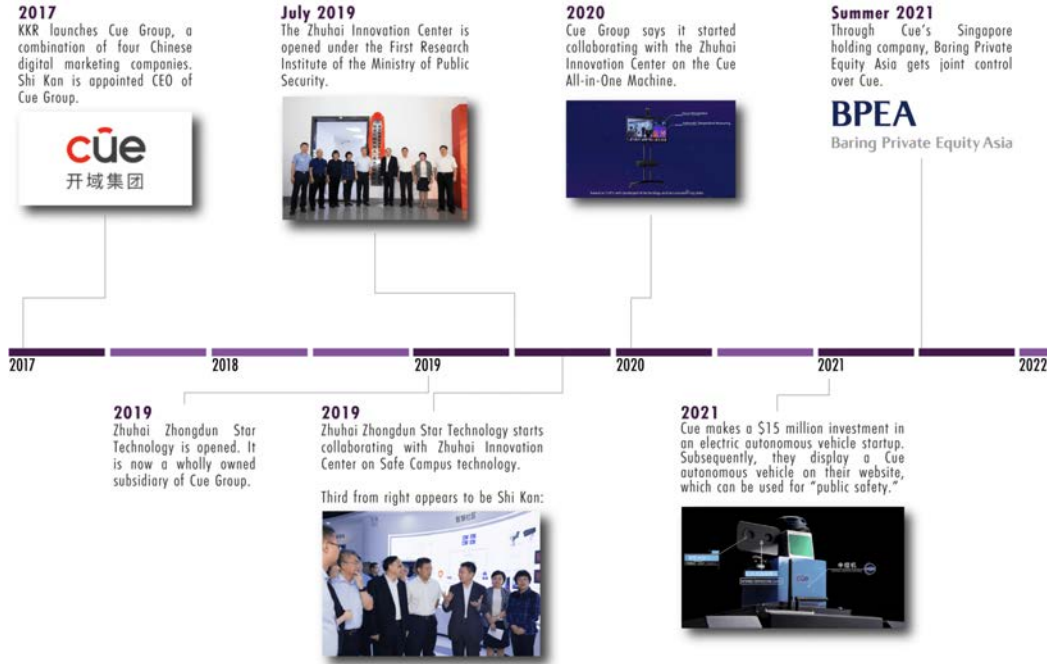
“We employ a rigorous due diligence process prior to making an investment, and have ongoing ESG [environmental, social and governance] and compliance monitoring programs in place to provide oversight of our actively held portfolio companies to identify and address issues in an appropriate manner,” a KKR spokesperson told *The Wire*.

Asked what KKR’s position would be if one of their portfolio companies had indeed collaborated with the Chinese government or an MPS lab, KKR said in a statement: “We were aware a device was developed to protect public health and combat Covid-19. We have no knowledge that the product was used for any other

purpose. We want to make clear that we would not be in favor of the technology of any of our portfolio companies being used in violation of internationally recognized human rights.”

KKR and Cue Group

Cue Group was launched by KKR in 2017. This timeline follows Cue Group’s development and collaborations since then. Cue Group and KKR deny that there was any collaboration with the Zhuhai Innovation Center.



Source: Media reports, corporate records, PitchBook, Cue Group press releases
Design by Eliot Chen

THE ‘POSTER CHILD’

The U.S. pension funds that invest in KKR Asian Fund III, which currently has a stake in Cue, include the New York State Common Retirement Fund, the Minnesota State Board of Investment and California State Teachers’ Retirement System, all of which committed \$100 million or more pre-2019.

U.S. Public Pension Funds Investing in KKR Asian Fund III	Committed Capital (\$ millions)
Washington State Investment Board	500
New York State Common Retirement Fund	285
Oregon Public Employees Retirement System	250
California State Teachers’ Retirement System	180
Florida State Board of Administration	150
Minnesota State Board of Investment	100
Louisiana State Employees’ Retirement System	50
Public Safety Personnel Retirement System of the State of Arizona	40

Data: PitchBook, pension fund financial reports

Every pension fund that *The Wire* reached out to either declined to comment or did not respond to requests for comment. The one exception was the Washington State Investment Board, which committed **\$500**

(<https://www.sib.wa.gov/financial/pdfs/quarterly/ir063021.pdf>) million to KKR Asian Fund III in 2018.

“We are certainly aware of the privacy questions tied to the use of personal recognition technologies,” Chris Phillips, the director of public affairs for the fund told *The Wire*, “These are long term commitments. The nature of private equity funds is that you can’t sell out of them without potentially incurring substantial losses.”

This fiduciary obligation to maximize profit often constrains pension funds, says [Michael Posner](https://www.stern.nyu.edu/faculty/bio/michael-posner) (<https://www.stern.nyu.edu/faculty/bio/michael-posner>), a professor of ethics and finance at New York University’s Stern School of Business and served during the Obama administration as an assistant secretary of state for the Bureau of Democracy, Human Rights and Labor. “But that doesn’t mean they can’t have conversations about their values,” he says. “American companies and investors should not be directly involved in helping the Chinese state undermine the rights of their own citizens.”

This is easier said than done, however, especially when it comes to China’s byzantine and rather opaque business environment. Industries as diverse as apparel and solar technology have been struggling to figure out how to keep their supply chains out of Xinjiang, which has been the target of sanctions. Meanwhile, despite efforts to block the sale to China of U.S. DNA equipment that might be used to target minorities, the Chinese authorities have found ways to [purchase](https://www.nytimes.com/2021/06/11/business/china-dna-xinjiang-american.html) (<https://www.nytimes.com/2021/06/11/business/china-dna-xinjiang-american.html>). goods made by companies like Thermo Fisher. [Emily Weinstein](https://cset.georgetown.edu/staff/emily-weinstein/) (<https://cset.georgetown.edu/staff/emily-weinstein/>), a research analyst at Georgetown’s Center for Security and Emerging Technology, says that while no U.S. company should be associated with a lab controlled by MPS First Research Institute, “figuring this out requires a significant amount of due diligence and Chinese language skills.”

KKR, of course, is a sophisticated operation. The company, which rose to fame as a leveraged buyout firm in the 1980s, and whose activities were chronicled in the best-seller “[Barbarians at the Gate](https://www.harpercollins.com/products/barbarians-at-the-gate-bryan-burroughjohn-helyar?variant=32206878539810)” (<https://www.harpercollins.com/products/barbarians-at-the-gate-bryan-burroughjohn-helyar?variant=32206878539810>),” entered the China market in 2007. The firm has a large operation on the ground and has made deals with the state-owned investment banking giant [C.I.C.C.](https://www.nytimes.com/2010/02/24/business/global/24yuan.html) (<https://www.nytimes.com/2010/02/24/business/global/24yuan.html>), the Chinese appliance maker [Haier](https://www.reuters.com/article/us-kkr-haier/kkr-buys-stake-in-appliance-maker-in-biggest-china-deal-idUSBRE98T0D520130930) (<https://www.reuters.com/article/us-kkr-haier/kkr-buys-stake-in-appliance-maker-in-biggest-china-deal-idUSBRE98T0D520130930>), grocery app [Xingsheng Youxuan](https://www.reuters.com/article/us-xingsheng-youxuan-fundraising/chinese-grocery-app-xingsheng-youxuan-raises-2-billion-in-new-funding-round-sources-idUSKBN2AJ0GX) (<https://www.reuters.com/article/us-xingsheng-youxuan-fundraising/chinese-grocery-app-xingsheng-youxuan-raises-2-billion-in-new-funding-round-sources-idUSKBN2AJ0GX>) and [Bytedance](https://www.reuters.com/article/china-bytedance-fundraising/sequoia-and-kkr-lead-bytedance-funding-round-that-values-it-at-180-billion-sources-idUSKBN28L1AL) (<https://www.reuters.com/article/china-bytedance-fundraising/sequoia-and-kkr-lead-bytedance-funding-round-that-values-it-at-180-billion-sources-idUSKBN28L1AL>), the Chinese owner of the popular social media app TikTok. KKR has raised four Asia funds, the latest of which totalled [\\$15 billion dollars](https://www.businesswire.com/news/home/20210405005419/en/KKR-Closes-US15-Billion-Asian-Fund-IV) (<https://www.businesswire.com/news/home/20210405005419/en/KKR-Closes-US15-Billion-Asian-Fund-IV>). — the largest private equity fund dedicated to Asia ever.

Critics, however, say that outbound U.S. investment to China still enjoys relative anonymity, with little accountability to human rights or national security interests. To ensure that American money doesn’t support problematic companies and industries, momentum is [building](https://www.wsj.com/articles/panel-urges-restricting-u-s-investment-in-china-over-security-concerns-11637163001) (<https://www.wsj.com/articles/panel-urges-restricting-u-s-investment-in-china-over-security-concerns-11637163001>) in Washington for U.S. legislation barring or screening outbound investment into sensitive sectors in China.

Currently, the U.S. government’s main tool to control outbound investment is to put companies on the Treasury Department’s investment [blacklist](https://home.treasury.gov/policy-issues/financial-sanctions/consolidated-sanctions-list/ns-cmic-list) (<https://home.treasury.gov/policy-issues/financial-sanctions/consolidated-sanctions-list/ns-cmic-list>). But this list only impacts publicly traded securities, and it is reactive: the specific entity must already be known to be involved in human rights abuses or activities contrary to U.S. national security interests. SenseTime, for instance, was [placed](https://fortune.com/2019/10/08/china-ai-us-entity-list/) (<https://fortune.com/2019/10/08/china-ai-us-entity-list/>) on the U.S. Entity List in 2019 for its involvement in human rights abuses against Uyghurs, barring U.S. exports to the company. But American firms like Fidelity, Qualcomm and Silver Lake continued to put [millions of dollars](https://www.buzzfeednews.com/article/ryanmac/us-money-funding-facial-recognition-sensetime-megvii) (<https://www.buzzfeednews.com/article/ryanmac/us-money-funding-facial-recognition-sensetime-megvii>) into the company. In 2021, the same year SenseTime went [public](https://www.buzzfeednews.com/article/ryanmac/us-money-funding-facial-recognition-sensetime-megvii)

(<https://www.reuters.com/technology/sensetime-shares-open-up-16-hong-kong-debut-2021-12-30/>), the company was added (<https://www.nytimes.com/2021/12/13/business/china-sensetime-hong-kong-ipo.html>) to the Treasury list.

There are very few government tools that could block firms like KKR from pouring money into a private company like Cue.

“There is a concern that the existing tools we have are not sufficient,” says [Charlie Vest](https://rhg.com/team/charlie-vest/) (<https://rhg.com/team/charlie-vest/>), a senior analyst at Rhodium Group. “Proponents of [new legislation] say the U.S. government does not have adequate visibility on the transactions that go on between the U.S. and China.”

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— *Charlie Vest, a senior analyst at Rhodium Group*

In 2020, U.S. foreign direct investment in China amounted to \$8.7 billion (<https://www.us-china-investment.org/fdi-data>), which was the lowest level since 2004, according to Rhodium Group. The decline was due to the pandemic, geopolitical dynamics and the U.S. government’s own policies. But this summer, Jake Sullivan, Biden’s national security advisor, said (<https://www.whitehouse.gov/nsc/briefing-room/2021/07/13/remarks-by-national-security-advisor-jake-sullivan-at-the-national-security-commission-on-artificial-intelligence-global-emerging-technology-summit/>) more restrictions could be useful. Current outbound U.S. investment flows, he said, can “circumvent the spirit of export controls or otherwise enhance the technological capacity of our competitors in ways that harm our national security.”

It is still unclear what, exactly, an outbound investment screening process would look like, but the America Competes Act (<https://www.npr.org/2022/02/04/1078226282/u-s-house-passes-china-competition-bill>), which just passed the House and is aimed at bolstering U.S. competitiveness with China, includes a provision (<https://www.wiley.law/alert-America-COMPETES-Act-Would-Stand-Up-a-Committee-to-Review-Certain-Outbound-Investment-and-Offshoring-Transactions>) for screening in critical industries. It proposes creating an inter-agency committee, akin to the Committee on Foreign Investment in the United States (CFIUS), which would be led by the United States Trade Representative.

But the Senate version of the Competes Act does not include (<https://www.politico.com/news/2022/01/25/house-china-bill-trade-title-00001366>) the review process, so it remains to be seen how much support the provision really has. It is also unclear what types of investments would be covered under the review, but experts say the surveillance industry could be included.

There is not a lot of precedent to work from. Very few countries have outbound investment controls, says [Kevin Wolf](https://www.akingump.com/en/lawyers-advisors/kevin-j-wolf.html) (<https://www.akingump.com/en/lawyers-advisors/kevin-j-wolf.html>), a former official at the Commerce Department’s Bureau of Industry and Security, which controls the Entity List. “Historically it has not been a regulated area,” says Wolf, who is now a partner at Akin Gump Strauss Hauer & Feld LLP. “If a decision is made to impose outbound investment controls, then how are you going to decide what is covered? What agencies are going to do this? There aren’t bodies and staff that know how to do this.”

There are also considerable downsides to imposing such an extensive bureaucratic review; according to a recent Rhodium Group [study \(https://rhg.com/research/tws-outbound/\)](https://rhg.com/research/tws-outbound/), an outbound screening process would affect over 40 percent of U.S. investment into China.

Moreover, even if an investment screening process had been in place in 2017, it seems unlikely it would have prevented or stopped KKR from investing in Cue Group. Cue, after all, was a digital marketing firm, not a surveillance company. It only started broadcasting its collaboration with China's surveillance apparatus in 2020, three years after KKR's initial investment.

Cue's pivot, analysts say, illustrates one of the unique challenges of investing in China: from a business perspective, it often makes sense for Chinese firms to work with the government. This is especially true since the pandemic, which formed a natural alliance between China's big data companies and government surveillance. Chinese tech behemoths like Alibaba and Tencent, for example, have developed [Covid health code apps \(https://www.nytimes.com/2020/03/01/business/china-coronavirus-surveillance.html\)](https://www.nytimes.com/2020/03/01/business/china-coronavirus-surveillance.html) for the government by using GPS tracking.

In China today, surveillance "is where the money is," says CNAS's Rasser. "If you look at how much the Chinese state is pouring into this, this is where the revenue growth is."

Chinese firms also benefit from working with the government on A.I.-related work because it allows them to access large amounts of data. [David Yang \(https://economics.harvard.edu/people/david-yang\)](https://economics.harvard.edu/people/david-yang), an economist at Harvard University, recently published a [paper \(http://davidyang.com/pdfs/ai_draft.pdf\)](http://davidyang.com/pdfs/ai_draft.pdf) showing how Chinese A.I. companies that received contracts from the government — and got access to data as a result — were more likely to create innovative and successful commercial products.

"A.I. requires a lot of data to make it accurate enough to be commercially viable," says Yang. "By working with public security, for example, the government gets the aid of the A.I. technology that they don't have themselves, and the firm gets access to the data."



KKR's co-founder Henry Kravis speaking on a *Fortune* panel in Guangzhou in 2017. *Credit: Fortune* (<https://www.youtube.com/watch?v=pDxHKuZd0sM>)

While these calculations might make sense for Chinese companies, including Cue, when American investors and pension funds are involved, the moral costs are expected to outweigh the financial benefits.

It's not always clear that they do. At a 2017 event in Guangzhou, Henry Kravis, the co-founder of KKR, said that when the firm started in China, it considered one thing: what was needed.

“In those days, everything was needed,” he explained (<https://www.youtube.com/watch?v=pDxHKuZd0sM>). “For example, one of the things that the government needed very badly was to improve food safety and security. The second thing they needed was improvement in the environment and water safety. So we said, ok, let’s look and see what we can do.”

Once the Chinese government needed surveillance technologies, it seems Cue Group saw what it could do.



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