

Third Raleigh International Spy Conference

It's a pleasure to be with you this Friday morning to discuss China and the threat it poses to the national security of the United States. That threat is not of the future, but is increasingly being recognized as a current threat that must be dealt with sooner, not later, though it isn't clear that we, as a nation, are prepared to do just that.

I should tell you that I do not consider myself to be an expert on China. I have had the privilege of meeting a few over the years and frankly, they are few and far between. China is simply too large in size, too populous, too ethnically diverse, too complicated politically and socially to allow for a full understanding. To be conversant, about Beijing and Shanghai is not to be knowledgeable about China as a whole. What about Guangzhou and Shenyang and Fujian Province and the Yangtze River? Those regions too, play an important role in the huge land mass we simply call "China." This is *Zhongguo*, what the Chinese call their country, meaning literally, "Middle Country" for they are, in their minds, the geographical center of the universe and of course, the cultural center of the world as well.

But I've had some experiences, I've had some observations and, of course, I have some opinions that I am willing to share with you about China and the intelligence threat it poses to the United States. But let us look at China and how it got where it is. For China's past holds the keys to understanding China today and even, the China of tomorrow.

As you know, the People's Republic of China, the *Zhonghua Renmin Gongheguo* was formed in the wake of World War II after a protracted and bloody, excessively bloody, civil war. What emerged is not the "People's" nor is it a "Republic." It is simply a totalitarian regime, repressive, corrupt and imperialist (think Tibet) in the truest sense. After the United States quit the mainland in 1949 and recognized Taiwan as the legitimate government of China, "Red China" became very much part of the daily vernacular when discussing the People's Republic.

But the People's Republic's emergence as a police state is not surprising given the character of those who defeated Chiang Kai-shek's Kuomintang army and ascended to power. History has shown that few revolutionaries who gain power by force become benevolent dictators, much less paragon's of democracy. Mao Zedong and his gang were ruthless and dedicated revolutionaries and the Chinese Communist Party today, still retains vestiges of the ruthlessness of its founders. Even today, less than 5 % of the total Chinese population are members of the Communist Party and of course, the Party rules China with an iron fist.,

Also what has emerged is a new "royalty" in China that has taken the place of the supporters of Chiang Kai-shek, the Soong family and other powerful and rich families that controlled China before the revolution. The new royalty is of course, the off-spring of the Chinese Communist Party ruling elite that include the Politburo members, the National Party Congress, the Central Committee, the Secretariat and the high ranking military officers. These are what I call the "golden youth", the "princelings", who become heads of state owned businesses, are promoted to the rank of Major General regardless of their lack of experience, who are allowed to travel, in style, overseas and

who intermarry with other powerful families, not unlike the arranged marriages of China's elite in pre World War II China.

In the early days of normalization, we noticed one female member of the staff of the Chinese Embassy that was treated with deference by others. She went swimming in the middle of the day while other staff members were working, she was always surrounded by an admiring group of associates and she was simply better dressed than the other members of the Embassy. It was determined that she was the daughter of Deng Xiaopeng whose true name was Deng Rong, but whom had traveled to the U.S. under the name of Xiao Rong. Neither the State Department nor the CIA knew of her identity until the FBI informed them. She was married to He Ping, a member of the People's Liberation Army who was too, posted to the Embassy and whose father was He Long, a veteran of the Chinese civil war and Long March hero. He Ping, in later years, became head of a Chinese corporation that was a front company for the PLA and they lived in an area shared by only other members of the ruling elite, far removed from the day to day lives of the ordinary people in China.

This ruling elite share something else with the "royalty" that their fathers overthrew in the Chinese Civil War; they are consumed with material goods, they assume theirs is a "right" to a life of privilege, they are unconcerned with the plight of the peasants in the outer provinces that provided the support that led to their families being in power. They are simply spoiled and corrupt families that have little of the revolutionary fervor, have experienced little of the hardships of their parents, have only vague recollections of the Cultural Revolution, if at all and whom are obsessed with retaining their positions of power and privilege above all else. They live in walled compounds,

travel in limousines with curtained windows, never stand in line at airports, shop in special shops and eat only the finest foods. That is China's Communist future.

As for the Chinese themselves, after the Communists ascended to power, they entered three decades of horror. There was the Chinese intervention in the Korean War, the Sino-Soviet split, the Great Leap Forward and of course, the Cultural Revolution, a seismic event that even today is vastly under appreciated by those who discuss China. This, the Cultural Revolution, from 1966-1975, was a period of virtually no contact with the outside world of consequence, but that was about to change.

I have always thought that, in part, the Nixon Administration was driven by political necessity as much as any other reason (as well as an addiction to secrecy and intrigue) to normalize relations with the People's Republic. When the overtures were made to the Chinese near the end of the Cultural Revolution, in the name of diplomacy, the Chinese had every advantage in the upcoming negotiations that led to normalization, i.e. it was the US that had made the overture and was pressing for some sort of relations and further, they had Larry Wu Tai Chin at their disposal.

This past year I had occasion to spend time with a former official of the PRC's Ministry of Public Security, the *Gonganbu*. And while I must be somewhat circumspect when discussing this individual, whom I will refer to as "Zhong", and what he told me, it isn't because the information is classified in a traditional sense as my discussions with him occurred well after I was no longer an employee of the FBI. He comes from a well connected family in China, one whose roots in Communism go back to well before World War II and whose father is a high ranking Communist Party member. But Zhong's own safety, and that of his family, must be considered.

I asked Zhong how Larry Wu Tai Chin was viewed in China? Larry Chin was a thirty year employee of the U.S. Government and who spied for the People's Republic virtually his whole career. He was arrested for espionage on November 2, 1985, by the FBI, convicted the following year and committed suicide in a jail cell while awaiting sentencing. Zhong said that Chin was regarded as a great hero in China and explained why.

He said when the first overtures were made to the Chinese, Mao Zedong mistrusted the overtures and thought it was a provocation that was being made to embarrass his government. One must remember that Mao himself, had virtually no contact with the western world, had traveled very little and was a largely un-educated man. In fact, as quoted in my book, Morris Childs, the principal character in John Barron's *Operation Solo, The FBI's Man In the Kremlin*, found Mao loathsome and said he was " 'smelly' having 'bad breath,' ' bad manners,' and—perhaps the most damning given the breadth of Morris's intellect and love of culture—a 'peasant.' ". Unlike Mao, Zhou Enlai had studied abroad (he joined the Communist Party while in France in the 1920's) and was very much an urbane and educated individual. He thought that the overtures were worth exploring. So Zhou tasked Shen Jian, another long time revolutionary, to see if he could determine if the overture was, indeed, legitimate. It was Larry Chin who was able to tell the Chinese that, in fact, the overture was legitimate and further, during the long negotiation process, was able to tell the Chinese of the U.S. negotiating position. This was due to Chin, as a long time CIA employee, being solicited for his advice and opinions by those who were involved in negotiating the terms of

normalization and recognition of the People's Republic as the legitimate government of China.

The results were predictable. During the initial phase of negotiations prior to the establishment of a Liaison Office in Beijing and later during the run-up to the establishment of diplomatic relations, negotiations ended up with the Chinese having a clear advantage. For instance, the Chinese constructed the building in Beijing that was to be the US Embassy, a building constructed without any US presence. As outlined in a *US News & World Report* article dated November 10, 2003, (which I am quoted extensively, and accurately I might add) it was reported that there are tunnels under the building, security camera's routinely go blank within the complex and without warning, suddenly began to work again. I am quoted as stating that I considered the Embassy to be totally compromised both electronically and physically. I still stand by that opinion.

But there was more. For instance, Henry Kissinger agreed with a Chinese demand that US Marines guarding the Liaison Office would not wear uniforms. After all, we couldn't injure Chinese sensitivities for having been occupied in the past by having foreign uniforms being seen, even though they were to be worn on only what is nominally US territory. There were no limitations on the number of Chinese students who would study in the US as well as the number of delegations from China that could travel here. There are, of course, restrictions on US travel and study in the PRC. And while the Chinese insist on having Foreign Service Nationals (that is, Chinese nationals) serving in the US Embassy in Beijing as well as the various consulates, and they do indeed, serve in key positions such as the visa office, no Americans are allowed to work in or have un-escorted access to the various buildings the Chinese own in the U.S. When

asked about this imbalance on one occasion, a Chinese official did not apologize for the difference in standards by simply noting that after all, our countries have different types of government. He was right.

Of course there was the other issue of the U.S. taking advantage of China's disconnect with the Soviet Union. This resulted in our sharing intelligence, China allowing the U.S. to place listening devices along the China-Soviet border and sharing other strategic military intelligence. This was a classic case of the old saying, "An enemy of my enemy is my friend." This lesson should not be lost at this time, as Russia and China have joint military exercises for the first time in their histories.

Perhaps there was naiveté, more likely it was simple arrogance, but it is clear the U.S. wanted those relations more than the Chinese. But the U.S. thought that we could open up our country to the Chinese, even while the Chinese failed to do the same for us, would have the desired effect of changing Chinese society. And as with most such decisions, security wasn't a real consideration, then or for the future. An argument can be made that those initial decisions provided the basis for the counterintelligence problem the FBI faces today.

The FBI, with its dual roles of law enforcement (think traditional police agencies) and security (something akin to Britain's MI-5) is geared by statutory authority and training to combat an adversary's intelligence service. But for the FBI, the Chinese are a particular problem. For the Chinese do not worry about the rule of law when it comes to its intelligence operations, at least anything akin what the FBI must consider. Indeed, China's approach to the criminal justice system is far fetched from what we expect in the U.S. When the first delegations began to arrive in the U.S., one such delegation from

some Chinese legal group, were being briefed by a staff member on Capitol Hill about the criminal justice system in the U.S. He explained such things as grand juries, indictments, preliminary hearings, discovery, trials and indeed, the whole legal process. At the end of the briefing, one Chinese delegate raised his hand and asked simply, “Why go to all that trouble for one obviously guilty?” The FBI must learn, actually it would be more correct to say, “re-learn”, to look at the Chinese, not from the point of view of the U.S. but from the standpoint of the Chinese themselves.

When the Communists emerged victorious from their civil war, the Chinese had in place the Ministry of Public Security, the *Gonganbu*. This was simply a tough service that reflected the personality of its nominal founder, Kang Sheng, a shadowy figure in China’s history. Kang was simply one of the more sadistic figures in history and even today, very little is known of him. When I raised Kang’s name with the MPS officer I spoke of earlier, he looked down and shook his head and never really commented. Kang is said to have been able to write calligraphy with both hands at once and have been a lover to Jiang Qing, the “actress”, before he introduced her to Mao Zedong. After the marriage of Jiang and Mao, Mao rewarded Kang, in 1938, by naming him as head of the Communist party’s secret service, while Kang had access to the bedroom thoughts of Mao himself. He is said to have killed more of his friends than he did his enemies. Kang later was an architect of the Cultural Revolution.

It is interesting that during the same time Kang Sheng headed the Communist’s secret service, his counterpart with the Chiang Kai-shek’s Kuomintang, Dai Li was too, simply one of those absolutely sinister characters in history. Probably never before in history have opposing forces in a civil war had two such blood thirsty characters on

opposite sides. There is, incidentally, no evidence that they ever met though Kang was certainly on Dai's most wanted list and Kang certainly would have liked to have seen Dai dead by his own hands.

But in 1983, during a period of Deng Xiaopeng's reforms, the Ministry of State Security, the *Guojia anquanbu* was created. Deng's stated that it was being formed to better perform international intelligence gathering, but I have always thought that it was also in part, done to ensure that he had his own intelligence service, not one that had been influenced by what was in time, a bitter enemy, Kang Sheng. The ebb and flow of allegiances was a characteristic of Chinese politics in the past, as well as it is today. Indeed, the first heads of the newly formed Ministry (Ling Yun, Peng Zhen) were subordinates of Kang who later became his enemies. The result was the Ministry of State Security, still has the vestiges of Kang's influence. It is the Ministry of State Security, whose primary function remains to protect the Communist Party, which remains the principal intelligence service that the FBI must confront today.

At the time of the establishment of relations with the US, the MSS had two primary goals; to counter the influence of Taiwan in the US and to obtain technology. By any measure, they have succeeded beyond their wildest dreams. Taiwan is treated like a second class citizen by this and previous governments and the MSS could have never imagined that they would have been allowed to collect scientific and technological information with virtually no interference.

At the time of Deng Xiaopeng's "Four Modernizations", (agriculture, industry, science and technology and the military) there are some indications that there was, at least to some degree, the establishment of a relationship between the MSS and some

universities in China. For instance, the Beijing International Relations Institute is simply a spy school for aspiring MSS officers, with different departments, i.e. the English Department, French Department, etc. During Henry Kissinger's first trip to China, according to Zhong, it was a department head at the Beijing International Relations Institute that provided the daily reports of Kissinger's activities. Suffice to state that he had no real privacy during his stay. But clearly there is a relationship with institutes to a degree, but I'm not certain that it is an inclusive relationship with all universities in China.

In the recent months, there have been media reports from around the world that have provided some indications of the growing concern for the Chinese and their massive efforts to collect intelligence. Let me give you some examples of what I am referring to.

In May of this year, *Asia-Pacific Financial Times* reported the arrest of a 22 year old Chinese student for industrial espionage while working at Valeo, an auto parts manufacturer in Paris. The student, Li Li, was found to have had three computers and two hard drives containing data on Valeo's products, including what was termed as "confidential" car designs not yet in the marketplace.

Also in May, Swedish radio reported concerns that foreign intelligence services, and in particular, the Chinese, are using guest researcher's at Swedish universities to steal scientific information.

Meanwhile, here in the United States, the FBI in recent months has too, sounded the alarm about Chinese students stealing technology. But I wonder if indeed, those thefts are really the work of the Ministry of State Security.

There is a Chinese term, *qingbao suo* that can mean, alternately “intelligence gathering” as well as “information gathering.” In Chinese (as well as Japanese and Korean languages) there is no distinction between “intelligence” and “information” in common usage. But when the Chinese refer to clandestine operations, they normally use the term *tewu gongzuo*, or simply, “special activities work” I think the vast majority of Chinese students who do engage in activities related to obtaining information from the various colleges and universities they attend, as well as those who work for U.S. corporations, are actually engaging in “information gathering”, not actually engaged in traditional intelligence operations.

So I suppose a central question is this. If information gathering activities are not being directed by an intelligence service, in this case, the Ministry of State Security, is it really an intelligence operation in its purest sense? One of the characteristics of *qingbao suo* is that it takes on all the appearances of an intelligence operation, in effect, it walks like a duck, it quacks like a duck, it even looks like a duck, but folks, it’s not really a duck. And this is one of the dilemma’s that confronts the FBI today; how to deal with the massive collection of sensitive or proprietary information by Chinese students who are not being directed by the MSS.

In an interview with the *Wall Street Journal*, the FBI’s counterintelligence head sounded an alarm that has gotten widespread attention around the world. David Szady, in an August 1 interview with the *Wall Street Journal* was quoting as stating that there are “...about 150,000...” Chinese students studying in the U.S. “...about 700,000...” Chinese visitors and business executives visit the U.S. each year, and that there are “...

more than 3,000 Chinese ‘front companies’”that are, by design, established to obtain military or industrial technology, illegally of course.

However, in February of this year, Szady, while appearing before a group in Arlington, Virginia, used the same figure for Chinese students, but stated that there were 300,000 Chinese visitors to the U.S. annually and further, there were 15,000 Chinese delegations touring the U.S. annually. And he also used the 3,000 figure for the number of Chinese front companies. I have no explanation for the 400,000 disparity between the visitor figures in that six month period.

Even the number for front companies is in dispute. That number (3,000) originated in the 1999 Cox Report. In 1997, the Defense Department said it could only identify 2 PLA (People’s Liberation Army) companies doing business and the AFL-CIO identified at least 12 such companies. At the same time, a Washington based think-tank identified 20-30 such companies. What has occurred, is that the Senate Select Committee concluded that there are more than 3,000 PRC corporations in the U.S., some with links to the PLA, some with the Ministry of State Security and others with simply technology targeting and acquisition roles. The *Los Angeles Times* found that the 3,000 number could only be reached by “...lumping together civilian, military and defense-industrial companies incorporated in the U.S.—and that there is little chance that all could be equally under the thumb of military or espionage agencies.” So Cox, in his report, said that only “some” of the 3,000 companies were “fronts”, but that the actual number of the government’s estimates of those companies with intelligence affiliation’s is secret.

So I can only conclude that the FBI has decided to call all Chinese corporations “front companies”, though in all candor, I doubt that the FBI can 1) identify 3,000 such companies and 2) offer empirical evidence that they are serving as front companies.

As for Chinese students, well the numbers are too, in dispute. In 2003, the US Institute of International Education reported that while China began to send students to the US in 1979, the greatest growth occurred between 1989 and 1994, but in the 2002-2003 school year, China had 64,757 students in the U.S. But since 1995, India has occupied the number one position in the number of students in the U.S. (with 74,603 students in 2003) and it is only by adding students from Taiwan (28,017) and Hong Kong (8,076) can China claim the top spot.

When I read those numbers, I was reminded of a comment attributed to Sir Josiah Stamp of England’s Inland Revenue Department in the early 1900’s. *“The Government are very keen on amassing statistics. They collect them, add them, raise them to the nth power, take the cube root and prepare wonderful diagrams. But you must never forget that every one of those figures comes in the first instance from the village watchman, who just puts down what he damn pleases.”*

The bottom line is this. The FBI doesn’t really know how many students there are in the U.S., the State Department doesn’t know, Immigration and Customs doesn’t know and even, the Chinese themselves don’t know. Years ago, even in the early stages of the mass travel to the U.S., I received a telephone call from an acquaintance at the State Department who, asked, with something of a chuckle, if the FBI had some firm figures on the number of students in the U.S., both J-1 (government sponsored) and F-1 (private

sponsored) visa holders. He went on to explain he had received an inquiry from his counterpart at the Chinese Embassy.

But the beauty of the FBI's figures is that there is no one who is in a position to dispute the numbers of students in the U.S. But I will also state that numbers alone are not indicative of a threat. This is an old tried and true fact of the counterintelligence business and the FBI would be better served by citing specific examples that give some credence of the stated threat from the large Chinese visitor's presence in U.S.

I will give you some idea of how I view the threats posed by the individual categories of the Chinese presence in the U.S.

While the FBI didn't mention the official presence in the U.S., I think there are about 400 officials in the U.S. with diplomatic passports. They are scattered about the U.S., at the Embassy on Connecticut Avenue in Washington, D.C., and at Consulates in New York, Houston, Chicago, San Francisco and Los Angeles. Among those posing as diplomats, there will be a number of members of the Ministry of State Security as well as their counterparts in the People's Liberation Army's Intelligence arm, the *Qingbaoju* or Military Intelligence Department or MID. There is dispute among those who observe Chinese matters as to the exact role of the MSS and the MID, but frankly, there is a degree of the unknown. I have long thought that MSS officers simply serve as spotters of those with potential for being of value, assessing information as it is gathered, serving as a constant security presence in the various establishments and facilitating the wooing process of those with value. I can assure you a Chinese-American professor from the Massachusetts Institute of Technology will have an easier time obtaining a tourist visa to

visit his ancestral home in Szechuan Province than a Chinese-American professor at Nichols State University in Louisiana.

But there is no indication that these MSS and MID officers engage in what was once considered classical espionage like we saw in the Robert Hanssen case for instance. That is, the use of dead drops and markings on mail boxes, fake rocks, bags of documents or money hidden under bridges. One of the lessons of the Larry Wu-tai Chin espionage investigation is that we observed that the Chinese do not meet their spies in the U.S. But I'm not going to state with certainty that this has not, nor will not, occur. The Chinese have the capacity to surprise.

Further, I believe the Chinese are less interested in targeting the FBI, CIA, NSA, etc. for recruitment than they are in simply obtaining as much industrial and scientific information as possible to aid in developing their industrial and military capabilities. Recruiting the other side's spies doesn't really offer that much assistance in those areas.

But what about all those students, delegates and visitors who travel to the U.S.? Do they really engage in espionage or the illegal acquisition of restricted technology? My response is that certainly, on occasion, some do. But it is an overstatement to suggest that all Chinese who arrive here from the mainland of China come here with such intent. One of the first thing that was noticed when Chinese students began to arrive at US academic institutions, in the latter 1970's, is that the school's expenditures for copier paper would increase substantially. Many of those students were copying everything they could get their hands on and in part, they were driven by their need to show their parent institute that they were serving China in order to continue to be able to study in the US. This was especially true of the J-1 visa holders who were government sponsored.

And in today's world, where computer's are so widely available as is computer derived information, the ability to obtain such information, and conceal it, is greatly enhanced.

But what did they do with that information?

This is where I believe the Chinese are missing the boat. For I am convinced that their acquisition effort, from all those who visit the US, is anything but organized, certainly not centrally directed or even, in all cases, directed toward any specific piece of technology. While massive amounts of information flows back to the PRC, to such places as the Harbin Institute of Technology, it is unclear that the Chinese have a clearing house, a central governmental body, tasked with ensuring scientific and technological information is directed to those agencies where it could be put to best use. I believe information flows back to the individual universities of the students, the organization or corporation of the delegates, to the parent companies of the front companies, without it being exploited to the fullest extent.

A few years back, I was talking about this topic with an acquaintance who worked on technical analytical projects for a government agency. He had the opinion that even if we gave the Chinese a copy of some piece of the latest technology, by the time they were able to get it to production and use, it would be obsolete. This was an opinion, based not so much on the incompetence of the Chinese, but instead, the fast pace of technological growth itself. Frankly I'm not technically astute enough to comment on his assessment—I still have problems operating the VCR for my grandsons. But I would hate to accept that assessment as a given, but it is clear that the Chinese have not developed new technologies as much as they have copied from others.

I mentioned an MPS officer I had occasion to get to know this past year. Again, I apologize for being somewhat circumspect, but briefly allow me to tell you his story.

Zhong was born into a politically prominent family, in many respects, a family of relative privilege. During the Cultural Revolution, his father came to the aid of an even higher ranking Communist Party member which brings us to the Chinese term *quanxi*. *Quanxi* is an ancient practice of relationships and basically it means that there are obligations to be of assistance to those who have assisted you in the past. In effect, the higher ranking Communist Party member (think of him as the tier just below Mao Zedong, Zhou Enlai and Kang Sheng) was obligated to help the family of those who came to his assistance during the Cultural Revolution.

Zhong first became a member of the People's Liberation Army, then using the family connections, *quanxi*, transferred to the Ministry of Public Security. But after a number of years with the MPS, again using the family connections, he was able to take, in effect, a leave of absence and joined a true front company in a country outside the PRC. This was done with the approval of the Ministry of State Security. He was not, I stress, a member of the MSS, but simply one who was receiving the approval of the MSS to engage in the acquisition of technology, not necessarily restricted technology alone, but any technology.

Now this brings us to a characteristic of Chinese front companies that is novel and even, brilliant in many respects. Unlike such companies that are established by most western intelligence services, the Chinese expect those companies to be financially self sustaining. Think of this, by their books, their everyday activities, they are truly companies trying to make a profit. Further, they don't even care if the members of the

front companies make personal fortunes.....and many do just that. They are simply expected to send back hardware and technology to China, even as they are becoming personally wealthy in the process.

After a time of success in that other company, they decided to expand into the U.S. So, again with the approval of the MSS, he came to the U.S., established a U.S. corporation with the goal of acquiring technology and hardware for shipment back to the PRC. This is where I found the conversation especially fascinating.

I asked him if the MSS provided him with specific items of technology to target for shipment to China? He said his only task was to obtain U.S. military hardware, no specific types mentioned. So he began to search for metal for shipment back to the PRC and was able to find some scrap materials with U.S. Army markings.

So he made a shipment, wrote his report that said he had been successful in obtaining U.S. Army materials and sent it to his superior. With something of a bemused look on his face, he explained that he knew the material was literally and figuratively junk and even, his boss knew it. But that is not the way the system works.

The boss sent him a congratulatory letter and sent a report to his superiors stating that Comrade Zhong had successfully obtained some U.S. Army hardware. Those superiors too, sent up their report.....well, you get the picture. Zhong's boss was made to look good, that bosses superior were able to report they had supervised a successful project to their superiors. As Zhong told me, the whole thing was a fraud, but was typical of such operations. Indeed, Zhong cited this example as indicative of the corruption, the fraud, that permeates the Chinese government today and has for decades. It doesn't help one's career to report failure.

You must remember that the most ingrained bureaucracy in the world is in China. There is an old Chinese saying that goes like this. *Shang you zheng ce, xia you dui ce.* The English translation is something along the lines of “Above there is a policy, below there is a counter policy. The Emperor is far away.”

But I think what Zhong told me and what I observed with students and delegations is consistent with my belief that the collection effort on the part of the Chinese, while indeed, massive, is largely undisciplined. The student who copies information from colleges and universities, the delegate who was able to obtain a manual about some obscure piece of technology, the businessman who picks up brochures by the sack full at trade fairs, all send that material back to their parent institute. This is simply classic *qingbao suo*.

I have long been impressed with the Chinese ability to collect information, but have been less impressed with its ability to put that information to use once it is gained. But of course, this isn't a problem unique to the Chinese alone, as we have learned from the various reports relating to the failures of intelligence, or more specifically, the failure to properly use intelligence, leading up to 9/11.

And who is supposed to collect this information. In the view of the Chinese, it is not hoped, it is not expected, it is simply assumed that all Chinese, including Chinese-Americans, will collect information on behalf of the China. After all, they are Chinese first, regardless of the fact that their families have not lived in China for generations. They are simply Overseas Chinese whose allegiance can only be with their ancestral homeland. Certainly there is every indication that the Chinese have been successful in

soliciting the assistance of Overseas Chinese in obtaining technology, including some that was highly classified. But all those Overseas Chinese, who have been identified as having assisted the PRC, have been first generation immigrants to the U.S. I doubt the Chinese will be as successful in their efforts to obtain such assistance from future generations of Chinese-Americans.

I recall one day when I found myself tuned into a radio talk show during the time of the latest Taiwan elections and the whole issue of their stating their independence. But a caller, who identified herself as ethnic Chinese who had immigrated to the US, took the position that the matter of Taiwanese independence was a matter that only the Chinese had a right to hold sway and no one else had any right to be a part of the process. That is the traditional view of China and how it views any other country's interest in their affairs. Oh, it's okay if they deal with Overseas Chinese in any country, regardless of citizenship, but it's not okay for other countries to weigh in on matters involving China and the Chinese..

The China that the FBI sees today is a far from the China that first surfaced in the U.S. when Jimmy Carter rushed to normalization. The U.S. basically threw Taiwan overboard, though during the height of the Cold War to that point, we had regarded Taiwan something akin to an island aircraft carrier in the western Pacific. China bought and immediately occupied the old Windsor Park Hotel on Connecticut Avenue near Rock Creek Park in Washington, D.C. as its embassy. And while we knew very little about China, really, it was clear that the Chinese knew even less about the U.S. Their embassy was not dissimilar to a prison of sorts as their staff was seldom allowed outside the building and only then, in large groups that were in effect, tour groups. They constantly

displayed a very real uncertainty in dealing with Americans it was clear that they were overwhelmed by the consumer goods readily available. What we learned was that even the members of China's Foreign Ministry weren't aware of the wealth and openness of the American society. In one of the FBI's earliest successes, the individual was asked why they had decided to throw their lot with the FBI and the U.S. Their comment was simply, "When I flew into the U.S. and I looked down and saw all those lights and cars, I knew they had lied to me."

But they learned and the China we see today is much more confident and even assertive in assuming what they consider their rightful place of prominence in the world. They have a right to be.

We read virtually daily of China's growing economic might. The Department of Commerce reported that the U.S. trade deficit in 2004 soared to a record \$617.7 billion., the single largest deficit on record. The trade imbalance with China was a major concern. In fact, the imbalance was \$162 billion, up more than 30% from the previous year and the single highest trade deficit with a single country ever recorded. That deficit was, in part, due to the Chinese practice of undervaluing its currency, the yuan. Some estimate the under-value as high as 40% and while the Chinese have made some recent adjustments, most estimates are that they have adjusted their under-value by no more than 5%.

From an economic standpoint, the *Asia Times* reported earlier this year, the U.S. lost 1.5 million jobs from 1989 to 2003. Most of those jobs were in the high-wage manufacturing sector. The job loss accelerated after the Chinese were admitted to the World Trade Organization, after the Senate ratified the agreement, with the urging and support of both President's Clinton and Bush

What has been the nature of China's economic growth? It appears that very little research and development is practiced by Chinese companies...like the air they breath, such matters can be a state secret if so desired. What little research and development done is likely conducted by military affiliated firms or institutes while the remainder of China's industrial effort is simply one of manufacturing. Certainly the Chinese emphasis on scientific and technological collection reduces the need for a robust research and development program.

But for years, there has been concern for China's continuous violation of intellectual property rights. Simply stated, they have little concern for such legal niceties. Now there is another problem. On August 16, the *Asia Times* quoted the Chairman of the American Chamber of Commerce in Beijing, Emory Williams as stating, "The export of pirated goods is increasing." He went on to express concern that both the theft of intellectual property and pirated goods, while once only a Chinese domestic problem is rapidly becoming an international problem as China becomes more integrated into the world's economy.

In effect, China is becoming the world's factory, not the world's innovator.

Further, U.S. businessmen have learned that there is a price for doing business with the Chinese. Bribery is a way of life, bribery to the Communist Party cadres, who serve as purchasing agents for government offices and state owned businesses who can approve or disapprove contracts. *The Washington Post* reported on August 22nd that while China has become almost a promised land for struggling companies with its potential huge market for goods, it has also had the effect of bringing those same

companies in conflict with U.S. anti-bribery laws. In fact, the *Post* reported, in interviews with executives of nine such corporations based in Beijing, all admitted that their firms routinely win sales contracts by paying what can only be described as bribes, often times in the form of extravagant entertainment and travel expenses. Those same businessmen, perhaps both somewhat idealistic and ignorant of China's past, thought their presence would cause the Chinese to adopt more ethical business practices. But the reverse has happened. They have adopted China's practice of bribery to ensure sales as the Communist Party members control businesses and who consider kickbacks as a part of their salaries.

This has led U.S. companies to come into conflict with the Department of Justice and the Securities and Exchange Corporation. For instance, in December, 2004, InVision Technologies in California paid an \$800,000 fine after admitting it had bribed government officials in China (as well as Thailand and the Philippines) and in May, 2005, Diagnostic Products Corporation in Los Angeles surrendered \$2 million in profits after it admitted it had paid out \$1.6 million in bribes at Chinese hospitals to gain business. And there are other such examples.

But I think there should be concern that these, and other companies, will consider such bribes, the payment of fines, as a part of doing business, a practice not unlike some contractors in some areas of the U.S. who build into their bids payments to Mafia members or corrupt politicians.

The business climate is that good. For the first time really, U.S. corporations began to realize large profits in China in 2003. It is estimated that U.S. companies had profits of \$200 million during 2003 and this can only serve to encourage U.S. companies

to adopt the Chinese methodology of doing business, that is, corruption, in order to make a profit.

But the theft of technology has taken a more modern personality. The Pentagon has recently expressed concern for the number of hackers from China that are attempting to break into their computers. In 2004, there were 79,000 intrusions into the Pentagon's 5 million computers world wide, with the largest number from China. Now, that doesn't necessarily mean all of the intrusions emanated from China. It is thought that some of the attacks were from other countries that were simply using China as a "steppingstone" to access Pentagon computers, but no one really knows due to a lack of cyber investigative agreements between China and the U.S. But a Pentagon program, codename *Titan Rain* has been initiated and while the Pentagon maintains none of its classified computer networks have been accessed, there is an acknowledgement that indeed, sensitive networks from the Redstone Arsenal, the Mars Reconnaissance Orbiter, Lockheed Martin and others have been accessed. *Time* Magazine reports that while the intrusions can be traced to the Guangdong area of China with certainty, the Chinese have responded that the charges are "*totally groundless, irresponsible and unworthy of refute.*"

Earlier this year, the Pentagon published an *Intelligence Threat Handbook* that was distributed to Pentagon personnel that quickly made its way into the media's hands. That handbook noted, for example, that China's SIGINT capability was now the third largest in the world, after the U.S. and Russia. In effect, it has added a technical arsenal, in the area of signals intercepts and satellite photographs to its already massive human collection effort.

In recent days, according to *The Tribune* on August 28, the government of India has too, become alarmed at the Chinese government's "dubious strategies and intelligence collection ploys" used in the U.S. and Europe for years. According to what was described as a "highly classified" report, the real concerns are the Overseas Chinese who have provided the expertise that has allowed China to improve its nuclear capability. So clearly the activities of the Chinese are not just a matter of concern for the U.S. alone.

China will continue to make mischief for the U.S. whenever it can. Mao Zedong, in his, *On Guerilla War*, described his tactics as, "*The enemy advances, we retreat; the enemy camps, we harass, the enemy tires, we attack, the enemy retreats, we pursue.*" This practice of simply wearing down the opposition over time has worked in the past and will continue to be the practice of the future. In many ways, this describes China's diplomacy and intelligence and information gathering as well. They simply wear you down.

The brazenness of the Chinese can be unsettling to those of us who value our privacy. Remember, there are millions of Chinese who, from birth to death, are never out of range of a human voice. They are not averse to asking direct and personal questions, such as salaries, how much our car cost, etc. But it is their persistence, the continuous pressure, their lack of a sense of immediate goals that is difficult for the western world to adjust. But then, for the Chinese time is not a factor. It is said that Henry Kissinger, when making small talk with Zhou Enlai while in Beijing to negotiate the terms of the establishment of relations, and well aware that Zhou had studied in France, asked what Zhou thought of the French Revolution? Zhou reportedly responded, "*It's too early to tell.*"

While we in the U.S. think of foreign policy in terms of the elections every four years, China has no such impediments to worry about. We play checkers or chess that has a probability for a quick outcome, but the Chinese play *weiqi*, a game of warfare where the goal is to slowly surround the enemy, taking a little territory while even, even giving some away, as part of an overall strategic goal, until the adversary is forced into a box and is forced to surrender.

Diplomatically, the China will compete with the U.S. at every opportunity. When it cooperates, when it negotiates, it will be playing a diplomatic version of *weiqi*. It will be applying Mao's strategy in conducting guerilla warfare, it will simply attempt to wear down the other side.

For instance, the Chinese and the Russians, very real adversaries during the Cold War, recently had joint military exercises. Now who do you think those two countries, where paranoia is a given, are trying to irritate? Look at North Korea, and while the Chinese are likely uncomfortable with a nuclear armed North Korea, they can't really bring themselves to conduct a responsible foreign policy in a broader sense. After all, the U.S. is considered by China as the more prominent adversary. Then there is the frequent references of their right to take back Taiwan by force and you and I know they are too, well aware of how strained U.S. conventional forces are at this time. They are determined to become a blue water navy, they will continue to modernize and build an offensive military capability, they will continue to make economic mischief where they can. Recently the Secretary of Defense, Donald Rumsfeld, has recently expressed alarm for China's military buildup, a buildup that goes well beyond a defensive military

posture. This, of course, has alarmed China's traditional enemy, Japan, where more of the budget is being devoted to defense spending.

The FBI has identified China as its highest counterintelligence problem. At least a decade ago, the FBI asked the State Department to classify China as a nation with a "hostile intelligence service." But the State Department declined, explaining that such a designation wasn't consistent with this country's overall relations with China. So, while the Pentagon sends up warning flares about China in a number of areas, the FBI has designated China as its number one counterintelligence priority, China violates the sanctity of the U.S. diplomatic establishments and virtually all the agreements of intellectual property and trade, the State Department continues to consider China as a "friendly, nonaligned nation."

But one must remember that China has always been treated differently by this nation. For instance, before the *US News & World Report* article, has the public ever been informed of the daily violations of sovereignty by the Chinese in Beijing? Recall, the great hew and cry when the State Department found an electronic bug in the State Department seal in Moscow, the weeks of publicity about the Soviets having bugged the new Embassy under construction, the Clayton Lonetree affair in Moscow, Soviet spying in the U.S., etc. Compare that with China. It appeared our government's primary goal was to get the Tiananmen Square slaughters off the evening news. When a Chinese MIG pilot bumped into one of our aircraft in international waters, forcing it to land on a small Chinese island, our response was tepid at best, even as the Chinese were busily dismantling the complete aircraft. We simply choose to ignore China's occupation of Tibet, the violations of our Embassy in Beijing, the mail openings, the intrusions into our

diplomats homes, the uniform police around our Embassy and Consulates in China that are there to simply deny Chinese nationals from entering.

Then there is the Parlor Maid investigation, the investigation where two FBI agents had affairs with Katrina Leung. I wrote in my book that there seemed to be an attempt by the Justice Department for the case to just "...go away." I was right, for that is exactly what has happened.

This is the China that the FBI must face today. How well equipped is the FBI to confront the problem it faces?

The late Eric Ambler, in his *The Light of the Day*, wrote, "*I think that if I were asked to single out one specific group of men, one category, as being the most suspicious, unbelieving, unreasonable, petty, inhuman, sadistic, double-crossing set of bastards in any language, I would say without any hesitation: 'The people who run counterespionage departments.'*"

I only wish that were the case with the FBI today.

The FBI has had a pretty dismal track record of handling major Chinese espionage investigations. If one looks at the five major espionage investigations in the past three decades (Larry Wu-tai Chin, Wen Ho Lee, Peter Lee, Katrina Leung and one the FBI say's I couldn't write about, though its been in the newspapers, was mentioned in court documents, has been mentioned in books, magazines and on television), the only one that ended with okay was the first one, Larry Chin. It is only a coincidence that the Chin case is the only one I had something to do with. But the other four have been embarrassments for the FBI.

Today's FBI does not have the historical and cultural awareness of China that is sufficient to be able to conduct insightful and meaningful investigations. This is not entirely the fault of the current leadership, for the FBI's China program was decimated by previous FBI directors and top management. Knowledgeable personnel were pushed aside, China investigations, with their failure to be resolved with any expediency, was not understood by Assistant Directors with short attention spans and limited intellectual capacity. An old friend, T. Van Magers, is quoted in my book as stating, "*If counterintelligence is for the long-distance runner, then Chinese counterintelligence is for the ultra-marathoner.*" Van was exactly right and when the FBI had top managers whose total focus was SWAT teams, kicking in doors and self-promotion in the media, the inevitable result was a decimated and dispirited counterintelligence program and the China program in particular. A quality counterintelligence program is not built overnight and the FBI will be years before it is able to rebuild its Chinese counterintelligence program to an acceptable level.

But the current FBI Director is not blameless, for he has been unable to recruit quality analysts, has failed in the attempt to upgrade the FBI's antiquated computer capability and has not demonstrated an understanding of the nuances of counterintelligence investigations.

A recent development has been the emergence of some in the media accusing the FBI of racism as related to its China investigations or of Chinese individuals. The *Asian Week* on August 21 ran an article that included virtual accusations of racial profiling in targeting Chinese for special attention. Essentially, the writer likened the title of the *Wall Street Journal* headline of August 1, "Phantom Menace, FBI Sees Big Threat

from Chinese Spies: Businesses Wonder” to something akin to “Yellow Peril”. Further, the FBI’s prosecution of one of its agents in Los Angeles, Denise Woo, has lead to claims of racism in the matter, noting Woo has been accused of compromising an undercover investigation. Incredibly, she was asked to work undercover against a family friend and the operation was approved by the same agent who was involved in the Katrina Leung affair. That is not a well run investigation and would appear to be rather difficult to defend. While in the past the Chinese community, throughout the U.S., has not been greatly involved in political matters and organized protests, this may well be changing and that too, will present another problem for the FBI

Of course, the best thing the FBI could hope is strict reciprocity with the Chinese as to such things as visitors, students, delegations and even, how the respective embassies are operated. If the Chinese restrict the number of American visitors to China, and their movements, we should do the same to the Chinese. It is estimated that there only about 5,000 American students studying in China, think of the reaction of the Chinese if we were to restrict theirs to a like number! If US delegations are strictly escorted and if their numbers are restricted, then we could do the same for them. And if the Chinese insist on putting armed police around our Embassy and that we are required to hire Foreign Service Nationals, think of how the Chinese would react if we too, demanded such changes in our current position. But of course, this isn’t going to happen.

The FBI cannot combat the massive and aggressive effort by the Chinese to obtain scientific and technological information, either by intelligence activities or by *qingbao suo*, alone. What kind of support can the FBI expect in confronting this problem?

Politically, this administration, just as previous administrations did, will continue to soft pedal the activities of the Chinese. They will not confront them on such matters as human rights, their violation of trade agreements and the continued occupation of Tibet. Politics trumps security every time.

Diplomatically, the State Department will not insist on even a cursory practice of strict reciprocity, will not confront the Chinese on their violation of diplomatic agreements, will not curtail the large influx of students, visitors, Chinese corporations and delegations to a manageable size and will continue to call China a “friendly non-aligned country.” Diplomacy, or what now passes for it, trumps security every time.

Businesses will continue to look at the loss of intellectual property, the pirating of goods, the payment of bribes, as simply the cost of doing business, especially if profits continue to rise. Business trumps security every time.

And in academia, where the FBI must have some cooperative relationship to be able to determine the access Chinese students enjoy within the research areas in particular, I do not see a lot of cooperation. This isn't due to any anti-FBI climate as much as a reaction to this administration's insistence that the FBI has access to library records as part of the Patriot Act. While the Act is designed to combat terrorism, the academic repugnance for this part of the Act will impact on the universities willingness to be a cooperative partner in assisting the FBI in its investigations of Chinese students.

Certainly this is a pessimistic, but realistic, view of the FBI's ability to investigate the Chinese. I didn't sugarcoat problems in the FBI when I was on board and I'm not

going to start now. Those areas, where I don't expect that the FBI will receive much support, aren't the only cause for this pessimism.

In the courtyard of the J. Edgar Hoover building, there is an inscription that is attributed to Hoover, a courtyard that the public is denied access to in this age of fortressing our government buildings in the name of security. But Hoover said, "*The FBI can be effective only as long as it has the trust and confidence of the American people.*" Well, the FBI has lost a great deal of that trust and confidence, by its bungling of such high profile investigations as the Wen Ho Lee and Katrina Leung investigations, FBI agents in Boston in bed with Mafia members, an FBI unable to bring itself to admit its mistakes as related to 9/11. There is no doubt that the FBI failed the American people in its most sacred task, that is, to protect the American people it is sworn to serve.

But I am also somewhat pessimistic about China's economic and political future. As the lights burn all night in Shanghai, to impress western nations, the Chinese distribution of scarce energy resources is so poor that factories in that same city have to shut down or more often, run the factories illegally. In China, style often times, trumps substance.

But the Chinese revolution had its roots in the Communists being able to exploit, brilliantly I might add, the unrest of the peasants who thought the government of China was ignoring their needs. Chinese Communism was something of an agrarian Communism that provided the strength to the revolution that led to victory. But in today's China, the disparity between the haves and the have-nots is as great, if not greater, than it was before the Chinese civil war. And this does not bode well for the People's Republic of China, for I think there is a very real possibility that it is the

countryside that will prove to be the problem for the People's Republic in the future just as it was the source of its success in the past.

I look forward to your observations, comments and questions.