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Chinese Espionage in the United States: Ho hum, why should I care?

Imagine a picture of Senator Fred Thompson of Tennessee sitting at the Chairman's position in the Senate hearing room. This will be much easier if you were watching last week as he was directing the committee that was hearing Representative Christopher Cox's report on Chinese espionage against the United States. If you weren't watching on C-Span, and if you don't know what he looks like, remember the big, craggy-looking American admiral in *The Hunt for Red October*.

Thompson was the actor who played the admiral before he turned his lawyer training and fame into a successful candidacy for the US Senate. Listen in your mind's ear to Thompson and many others crying for the scalp of NSC Advisor Sandy Berger and AG Janet Reno for having been asleep at the switch and not having taken the Chinese intelligence services seriously enough.

Now, imagine that Senator Thompson is the Chairman of your firm's Board of Directors. This time the issue is the loss of your company's proprietary or sensitive information to a Chinese company which has taken a disproportionate amount of market share away from your firm. You hadn't even known they were on the competitive landscape. Who's head is going to roll in your firm? Your company president, your boss, or you as the effluent slides downhill?

Wouldn't it better for you to know a bit more beforehand and try to plan for that eventuality? I hope that this little article might be somewhat illuminating for you, so that you can support your organization, your leadership and maybe even your company. Before you toss this topic off, please understand fully that we're not talking only about companies that have business interests or operations in China. And, we're not talking just about the Companies Bigger Than Heaven either, such as the defense and aerospace giants that are at the center of the current storm. Later, you'll see a little sidebar that gives just the barest detail on just a few of the industries that the Peoples Liberation Army - yes, Army - operates in order to help fuel the Chinese version of a military-industrial complex.

We'll be talking today about why you should give a fig about what the Chinese are (and have been) doing in the United States for some time. A dirty little secret that's been more or less an open one for the intelligence community for years, but which is now at the top of mind for many people since the Congress has found yet another issue.

Please don't misunderstand. This is going to be neither an apology for, attack on or expose of the current administration's handling of the information losses at Los Alamos (which is Spanish for "We lost the Alamo, but we found it in New Mexico").

Instead, it's going to focus on the ways that (1) the Chinese intelligence process differs considerably from any other international approach (2) the extraordinary linkages between Chinese intelligence services and the support they provide to national business interest, (3) the implications for virtually

company that's interested in remaining as viable competitors in today's marketplace and (4) the things that you, gentle reader with a security responsibility, should probably be aware of before your boss asks "Does this Chinese espionage stuff have any implications for our company?"

The Chinese Way - Different Strokes for Different Folks

Unlike the tried and true methods that the Union of Fewer and Fewer Republics (UFFR) and others have used over the centuries, where professional intelligence officers seek out those with the requisite placement and access and then try to recruit them, the Chinese have focussed on the Law of Large Numbers. As they do this, they rely on thousands - literally - of Chinese travellers, scientists, students, business people and academics to develop relationships with their opposite numbers, their colleagues, their contacts in countries where there are items of intelligence interest to be collected. And, instead of a monolithic and centralized, KGB-style colossus, the Chinese prefer a much more entrepreneurial approach.

If the Wan Hung Lo Company, a manufacturer of industrial strength trusses, for example, is interested in the technology that your firm holds dearest and choicest, they actually have more options than the wishbone offense ever dreamt of having.

First, they can call upon the services of the Military Intelligence Directorate (MID) or the Military Security Service (MSS) to conduct classical intelligence operations. And this doesn't happen just for those companies in the aerospace and defense business, since, as we'll see in a moment, the lines are not nearly as clearly drawn in China as they are in traditional state-sponsored intelligence operations.

Second, the companies can call on a wide (and ever widening) population of professional travellers to the country where your technology is employed -- perhaps even to your firm itself. Someone with an advanced degree in truss design comes to work for your firm. Prior to leaving the PRC, he agreed to provide whatever he gains access to, and thereby help the national interest, should such an occurrence arise. And it will. He'll be reminded of his poor old widowed mama in Beijing and asked to provide the information that his homeland needs for the next steps in the continuing Great Leap Forward.

Or, under the great opportunity to provide industrial trusses to a gazillion Chinese customers, you or your firm decide that a joint agreement to co-develop a turn-key plant in China would be in everyone's best interest. It'll be at this point that all the emphasis will be on the turn-key plant and its ability to feed the needs of the entire Chinese population. Your emphasis, that is. Their emphasis, on the other hand is to see the design and construction and operation of your factory up close and personal, so that the next 113 truss manufacturing facilities elsewhere in China look just like yours. And, when staffed by inmates and significantly less paid employees than yours, you've not only got competition for the Chinese market, but the rest of the world as well.

Or third, they can call upon their colleagues in other truss companies to learn what they have learned from their sources and resources in other places. "What?" you ask. "Can they do that? What about anti-trust laws and all that about information sharing?" Doesn't apply.

Or fourth, they can call upon any one of the many members of the nearly innumerable (well into the thousands in just California alone) of front companies that have been created in the United States by the PLA and its direct subordinate activities. Front companies that serve every interest from high-tech banditry to distribution of Sino-Tex hot chili peppers and everywhere in between. For a really eye-opening view of just how widely spread this whole matter is, and just how many and varied the

issues are that are properly within the responsibility of most corporate security managers in today's American corporation, I'd recommend an excellent, lengthy and well-researched article by Kenneth R. Timmerman. The article is called "China's 22nd Province" and can be found electronically at http://www.spectator.org/archives/97-10_timmerman.html.

Business and National Intelligence Service Linkages

For those of you who have visited our website and read or downloaded for distribution, my article *[Chinese Security And Economic Interests, American Technologies, And Critical Information](#)*, this may seem somewhat of a review. For the rest of you, I hope that this will put things into a little clearer perspective.

Long ago and far away, the Chinese leadership decided that they would develop their economic base, and let political and other reforms -- if there ever were going to be any -- occur later, once everyone was happy and well-fed. A couple of years after they really started this effort in earnest, Gorbachev tried to bring a political solution to the UFFR, before getting the economic ducks in a row. They're still paying the price in crime, economic destabilization and one crisis after another. The fragmenting of the Soviet economy as it jumped from a strictly controlled economy to somewhat of a free enterprise system, really validated the Chinese approach. They had decided to remain as a centralized and controlled economy with the leadership provided by perhaps the most honored and valued part of the National hierarchy, the Peoples Liberation Army (PLA).

The PLA decided that the first order of business, so to speak, would be to establish special and initial control over the various parts of the national economy that influenced the country's military and security well-being. It began with the establishment of its own industrial, corporate structure, and one of the most prominent is NORINCO.

Now, those of you who have platinum NRA credit cards all know that NORINCO is one of the world's leading arms manufacturers, dating back to the Chinese version of the AK-47 (the PK90 or whatever it is- check it out before submitting the article) that NORINCO began marketing many years ago. Yet, most of us really don't know that NORINCO's arms trade is just the very tip of the iceberg. NORINCO has literally hundreds of subordinate, subsidiary corporations providing virtually everything from soup to nuts.

As one example, there's China North Industries (Guangzhou) Corporation (NORINCO Guangzhou) which is one of its leading subsidiaries. It's a large scale foreign trade enterprise engaged mainly in import and export and a diversified range of business in technology, manufacturing and trading. The firm handles the import and export business in machinery and mechanical products, light industrial products, chemicals, optical and electronic products and sporting equipments, and so on.

It also engages in forming joint venture enterprises, establishing industrial investment projects and has been diversifying into numerous areas, such as labor service, contracting engineering projects, warehousing and transportation, advertising and exhibition, hotel and tourism, real estate developments and technical consultancy. In fact, it's done such a good job that it's earned the title of "Pioneer Exporter of Civilian-Used Products" by the Chinese government. Think about that for just a nanosecond. A government company that is the premier manufacturer and international seller of consumer products. Doesn't sound much like one of our government agencies does it?

And then there's NORINCO Dalian which is also an import and export organization that provides a

similarly large range of products. Perhaps some of you gentle readers will recognize these product lines from the things that you produce and sell: transportation vehicles and mechanical equipment and components; light industrial and chemical products and materials; opto-electronic products; textile fabrics and garments; medicine, food stuff, various stationery, sports equipment and consumer appliances.

To put an even more interesting point on the matter, let's just try and get a glimpse of how huge this animal is by looking at another of the NORINCO elements. It's called China North Chemical Industries Corporation. This chemical combine is the specialized export service for products of the 19 chemical factories associated with the NORINCO Group. With the R&D capability in the research institutes of NORINCO Group, they're more than capable of supplying special grades of fine chemicals, particularly those related to Nitration, Phosgenation, Cyanation, Aminolization -- whatever in the world that means. One box will give you an idea of how many facilities are involved; the others will give you an idea of the kinds of other products that you can encounter in the marketplace, courtesy of those fine folks at NORINCO.

As we look at just this one group, within the chemical side of the NORINCO Corporate structure, please keep in mind that NORINCO is immediately and directly subordinate to the PLA, which answers directly to the Politburo.

If we were to try and make an American version of this structure, it might look something like this: We start off with both the Congress and the Executive branch exercising its responsibility over the Defense Department. The Defense Department would own General Motors and a couple of hundred other firms. General Motors would be one of the major producer of all those products listed above; yet it wouldn't be the only one. Think about our imaginary version of General Motors owning Dupont and Dow and a bunch of others.

Now that you're getting a picture of what this means in terms of its contributions to the Chinese economy, consider how dependent the nation is on this kind of an industrial base. Your mind doesn't have to wander very far before you suddenly understand the differences between the way things are done here and the way that things are done there. Remember from all your previous learning and training in recognizing and dealing with threats: being able to protect yourself from someone means having to understand the ways in which your rival does things. Just ask George Patton why he studied his real or anticipated enemies all his life.

Astute security professionals interested in protecting themselves and their firms from competitors in these days of increasingly intense competition from many sources and flanks know that fundamental to being successful is doing an effective assessment of the threats arrayed against the firm.

The Chemical Side of NORINCO	NORINCO Chemical Industries Product - Partial Listing
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Shanxi Jin Dong Chemical Plant	Explosives High explosives, heat-resistance explosives, industrial explosives and special explosives in different packages and charges. Propellants for pistols, rifles and shotguns. Blasting accessories: Various detonators, safety fuse and detonating cord, etc. Seismic and perforation accessories.
Shanxi Jin An Chemical Plant	Marine distress signals and life-saving products. Raw materials for propellants and explosives. Fireworks. Special pyrotechnic products.
Shanxi Xing An Chemical Materials Plant	
Shanxi North Pharmaceutical Plant	Commercial explosives, propellants and blasting accessories
Shanxi Xin Hua Chemical Plant	TNT, RDX, PETN, Ammonium nitrate explosives, N.G. gelatine dynamite, Emulsion explosives, Watergel explosives, Relay primer, Seismic explosive cartridge, Black powder, Commercial propellants for shotgun and ammunition, various detonators, Safety fuse, Detonating cord
Shanxi Dong Fang Machine Building Plant	
Shanxi Dong An Chemical Plant	Pharmaceuticals
Shandong Chemical Plant	Vitamin B1, Nitroglycerine tablet, Tetracycline, Various medicaments (injection, tablet, capsule), Amino acid infusion, Medical butyl rubber bung
Sichuan Chuan An Chemical Plant	
Sichuan Lu Zhou Chemical Plant	Building materials
Sichuan Hong Guang Chemical Plant	Float glass, Hi-quality silvered glass, Hot-extruded section aluminum alloy and decorating plastic laminate.
Liaoning Qing Yang Chemical Industry Corporation	Specialized plastics Rubberized conveyor belt series, Caster for industry and furniture
Liaoning Hua Feng Chemical Plant	
Liaoning Xiang Dong Chemical Plant	Pesticides Crystalline lime-sulphur mixture, Zaoganlne glyphosate, Mancozeb, Smoke germicide for agriculture, Mieduowel.
Hubei Dong Fang Chemical Plant	
Hubei Hua Zhong Pharmaceutical Plant	Paper products Impregnated paper of bleached cotton slurry, Cellulose laminate--a leather substitute, tissue paper and sanitary towel.
Hubei Hua Qiang Chemical Plant	
Shanxi Hui An Chemical Plant	Paint Products Advanced polyurethane paints, various color nitro lacquers, various color amino resin coatings, various color epoxy resin coatings, inorganic building finish, Alkyd resin coatings, powdered coatings and liquid coatings.
Gansu Yin Guang Chemical Industry Corporation	
Xian Modern Chemical Research Institute And the affiliated Branches:	Chemical machinery and non-standard fabrication Plastic injection machine (capacity 300g-10000g, controlled by computer), Various acid-resistant pumps & valves, Chemical pressure vessels, Chemical non-standard fabrication, Hydraulic propellers, Carbide columns, Bucked conveyer and Building construction hoist.
Beijing North Kai Ming Chemical Industry Trading Corporation.	
Beijing Ao Cheng Chemical Scientific	Chemical protection and Fire protection apparatus Gas mask, Air purifier, Self-rescuer in mine, Dust respirator, Chemical protection suit, Fire-protection mask and Water purifier.

Development Corp. Dalian North Chemical Industry Corporation Wuxi North Chemical Industry Corporation Zhuhai North Chemical Industry Corporation NORINCO Nanjing Office	
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With this understanding of the nature of how the businesses and government are joined at the hip, you can see why the Chinese -- as well as so many other countries around the world -- think it's only natural that the government's resources, including intelligence resources, should be brought to bear in assisting the businesses to thrive and prosper.

Implications for you

Perhaps you've still got it in your mind that you don't have to worry about the Chinese or anybody else. Perhaps you're among those who don't know the reasons behind the passage of the Economic Espionage and Protection of Proprietary Information Act of 1996. Perhaps you are a graduate of Ostrich University and you wear your feathers proudly. That's okay, if that's the way you want to run your security function.

But, if you do know about, and care about these kinds of things, you also know that your company's leadership doesn't actually and necessarily consider the FBI's involvement in an EEA matter to be the answer to every maiden's prayer. Sticky issues such as the much broader latitude that judges give to defendants in criminal cases, especially in the discovery process, that could well mean the divulging of more information about your firm, its processes and products than you can afford -- and in some cases, like the Taxol case last year, where the defense petitioned for discovery access to not only the information they were alleged to have tried to steal, but considerably more as well. And we haven't even gotten to issues of shareholder confidence, corporate embarrassment, suggestions of leadership lapses in the exercise of their diligence responsibilities, and so on.

Perhaps the better way to present the issue of implications for you is to ask some questions to get you to thinking about where and how you're going to protect yourself. Starting with an assessment of who your actual and emerging competitors are is a fine start; figuring out what and how they can be expected to attack your firm is the next; followed by the development and employment of countermeasures that work against such approaches -- and that's always far more than the garden variety gates and guards solutions.

What Do I Tell The Boss?

Well, first things first and you're already at first base. You tell the boss what you're almost finished doing: You've been getting more and more smart on just what these kinds of things can mean for us as a company. You've learned a bit more about the entrepreneurial, decentralized way that the Chinese intelligence process works and are examining a variety of alternative, additional approaches to your already stalwart security defenses that can help meet this new threat head-on. You're in the

midst of your study of the issue and when you're finished and have some preliminary suggestions, you'll be making them in a formal presentation.

That is what you'll tell the boss, right?

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