

US Intelligence Council

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Red China Threat Seminar

“Vigilance in Peaceful Times”



Presented April 8, 2008
Washington, DC

*China Threat Seminar
Presented in Washington D.C.
On April, 8, 2008*



Preface

The need for this current China threat seminar is underscored by the lack of focus by the administration and Congress on the very real aspect of the China threat . The strong trade position that China has with the US puts even more pressure on our officials to “go easy”.

America and America’s officials must be aware and counter this growing and increasingly subtle threat to our vital national security interests.

The threats that China poses to America’s national security interest are substantial, numerous and

too extensive for this seminar to go into all of them. The areas that we will cover range from the threat to border security the threats to our neighbors and the threat posed by espionage.

Recent arrests underscore this ongoing spying issue with China. The communist Party of China’s slogan for the current 5 year that plan started in 2007 is “Vigilance in Peaceful Times.”

We will examine some of their vigilance and see that our government is not counter-balancing that vigilance with adequate vigilance of its own.

Prepared to fight

The People's Republic of China threatens the security of the United States of America and the well being of its citizens. This is not an overt threat like the U.S.S.R. during the Cold War, or an immediate threat like the current wave of terrorism, but one with long-range goals. The PRC is approaching those goals by taking small, sure steps to increase its power, strategic advantage and influence to the detriment of the U.S. The PRC has demonstrated its belligerence in statements, publications, and through its actions. The PRC is conducting asymmetrical warfare, involving indirect attacks and influence, such as funding U.S. candidates and elected officials to affect policy and through more direct methods such as attacking U.S. computer networks. The PRC is also growing its armed forces and increasing its strategic footholds around the world.

"War is not far from us now." "A new arms race has started to develop." So says Liu Jiangjia, strategist for the People's Liberation Army, China's armed forces, writing in *China Military Science*. China's Defense Minister, Chi Haotian, said, "Seen from the changes in the world situation and the United States' hegemonic strategy for creating monopolarity, war is inevitable...We cannot avoid it. The issue is that the Chinese armed forces must control the initiative in this war... We must be prepared to fight for one year, two years, three years or even longer."

The way a country treats its own citizens reflects how it treats other nations. And China treats its citizens like criminals. According to Amnesty International, "Tens of thousands of people continued to be detained or imprisoned in violation of their fundamental human rights and were at high risk of torture or ill-treatment. Thousands of people were sentenced to death or executed, many after unfair trials. Public protests increased against forcible evictions and land requisition without adequate compensation. China continued to use the global 'war on terrorism' to justify its crackdown on the Uighur community in Xinjiang. Freedom of expression and religion continued to be severely restricted in Tibet and other Tibetan areas of China."

The 'war on terrorism' excuse doesn't explain why China is antagonistic to the U.S. But their actions speak for them. For instance, as the Cox-Dicks Commission's report showed, PRC espionage is rife within our national laboratories. Another example is how China sanctioned anti-U.S. demonstrations following the heartbreaking unintentional bombing by United Nations forces of the Chinese embassy in Belgrade. But perhaps the greatest indicator of the PRC's antagonistic stance toward the United States is its reaction to the 9/11/01 attacks on the U.S. – they actually take credit for it.

Asymmetrical warfare

Almost immediately following the terrible attacks on the World Trade Center and the Pentagon, two important Chinese colonels -- military strategists named Senior Colonel Qiao Liang and Senior Colonel Wang Xiangsui -- praised the 9/11 attacks, and even hailed the terrorists as heroes in China. Moreover, in 1998, these colonels had advanced the idea for the attacks and even named Osama bin Laden in their book *Unrestricted Warfare*: "Whether it be the intrusions of hackers, a major explosion at the World Trade Center, or a bombing attack by bin Laden, all of these greatly exceed the frequency bandwidths understood by the American military..."

The Senior Colonels wrote that America could begin to crumble with an assault on the World Trade Center by bin Laden. In an interview printed in a Chinese-government-controlled newspaper, they say, "The series of attacks taking place in the United States were very dreary and terrifying, but they must not be viewed from a single perspective" e.g., with sympathy for the U.S. The colonels callously remark that the Americans "were victims of U.S. foreign policy" – a line quickly picked up on by our home-grown America-haters. The Colonels say also that the result of the attacks "very likely is the beginning of the decline of the United States, as a superpower." Admiral Thomas Moorer warns of the plans in the book that "China thinks it can destroy America by using these tactics." The former leader of U.S. forces in South Korea, Major General John K. Singlaub, concurs.

Chinese Communist elite foresees challenges ahead (10/19/07)

By Xinhua writer Cheng Yunjie

BEIJING, Oct. 19 (Xinhua) -- China has ushered in its best period of time over the past century marked by robust economic growth and expanding global clout, but on everyone's lips at the ongoing national congress of the governing Communist Party of China (CPC) is "**vigilance in peaceful time**". [Emphasis added.]



Delegate Wei Jiafu, president of the China Ocean Shipping (Group) Company talks to a Reuters reporter in Beijing on Oct. 18, 2007. (Xinhua Photo)

The sentiment of preparing for eventualities doesn't come out of thin air. As Chinese leader Hu Jintao pointed out Monday at the meeting where more than 2,000 Communist elite gathered to mull over the strategy for future, China has come to "a high starting point of our times" while the world gets much more complex.

Sustaining economy has been viewed as the top challenge during the open discussions over the following three days because excess expansion has taken heavy toll on the country's ecology, constantly throwing the government into emergency incidents that sparked a sudden explosion of public complaints over unsafe and deteriorating environment. In one case, more than one million residents in Wuxi, eastern China's Jiangsu Province, found their tap water supply cut off by the sudden outbreak of the stenchy algae in China's third largest freshwater lake Taihu.

The pressure from outside China also grew as the country's huge appetite for energy and resources--5 percent of the world's coal equivalent, 30 percent of steel and 54 percent of cement annually--triggered doubts and worries about the rise of another voracious power.

Fei Yunliang, a delegate to the congress and director of the Shandong Development and Reform Commission, said, "Breakneck growth at the costs of environment and ecology breached the laws of development, damaged productivity and would certainly incur a setback!"

The delegates did acknowledge the significance of the Scientific Outlook on Development and the proposal to nurture a conservation culture, but they also admitted its success would hinge upon the implementation in grass-root levels.

Other evidence of China's belligerence comes from the influx of immigrant spies. The Communist government controls who can and cannot leave the country. Only Chinese citizens who are selected and trusted by the Communist Party are allowed into the U.S. Many Chinese students studying in the U.S. have access to science and technology they wouldn't otherwise find. The PRC orders them to report back any significant findings, according to U.S. counterintelligence officials.

The Communist government also controls who comes into the PRC. The Centre for Counterintelligence and Security Studies relates several instances of Americans being held captive in PRC. They are arrested, accused of being spies, incarcerated in prison camps and mistreated while waiting for mock trials. China shows its intentions by its actions.

Assymetrical warfare is a form of conflict where one advances its influence and achieves strategic objectives without using direct military force. One type of asymmetrical warfare the PRC engages in is the use of their citizens as intelligence gatherers, as noted above. Another is the covert influence on politics in the U.S. in order to affect policy and lawmaking. In the late 1990s, the PRC was very successful in infiltrating the White House with campaign donors like John Huang of the Lippo Group and Charlie Trie while getting major concessions, including weapons technology and agreements to remain politically distant from Taiwan. President Clinton proposed selling PRC advanced missile technology in 1998. Lippo successfully concluded several joint venture agreements. While one or two of these agents have been caught, the consequences of these deals remain.

The PRC is also infiltrating the highest levels of Congress. One case that we know about came from newly declassified FBI papers. The documents attest that Senator John Kerry made a secret deal with the PRC to receive laundered monetary donations to his 1996 senatorial campaign in exchange for orchestrating meetings between Chinese aerospace officials and U.S. government officials.

Senator Carl Levin of Michigan, who now serves on the Senate Government Affairs Committee, the Permanent Subcommittee on Investigations, the Armed Services, and – frighteningly -- the Intelligence Committee, has taken money

from John Huang. Lippo is a giant Asian conglomerate that can influence the price and supply of U.S. energy.

The White House, the Senate -- how much is there that we don't even know about and how is it affecting our national security?

China promotes terrorism by offering weapons, transit, and probably strategy and tactics. The China's People's Liberation Army published the text of *Unrestricted Warfare* under the auspices of the communist Chinese government. This book outlines ways that countries weaker than the U.S. can still contribute to its downfall by using "asymmetrical" warfare. Asymmetrical warfare has been developed by terrorist organizations as they use their small numbers to maximum advantage. With the help of terrorism supporters, including the PRC, who supply them with weapons, these small groups can inflict great harm on civilian populations in the U.S. and other countries. The senior colonels advise that our enemies can achieve their objectives without an actual armed invasion of our territory. They suggest manipulating the U.S. media (their most effective gambit thus far), using suicide bombers, using immigrants as spies and saboteurs and attacking our computer networks.

And the advice of these Chinese senior colonels has been followed.

Manipulating media. The September 11 terror attacks allowed the news media to transmit images of U.S. defenselessness – the major effect desired by the terrorists. The news media provided al-Qaeda a platform from which they could announce their agenda and intentions and publicize their cause and increase their recruitment of terrorists. Media access emboldens terrorists to create a spectacle that cannot be ignored, showing them as more powerful than they are in order to attract new recruits. This image of power is intended to sway some of the public toward their side and to demoralize the rest -- and to destabilize governments through the power of fear on the populace. Another way the news media greatly assists the terrorists is by broadcasting every video and audio message they transmit. This creates fear among the populace and also provides terror cells with timely centralized information they don't often have access to.

Suicide bombers. One of PRC's leading military contractors, ZDF, has developed a new type of explosive that is undetectable by normal security scans such as metal and radiation detectors. This is according to a PRC senior colonel, Xu Junping, who defected to the United States and revealed the information to CIA director George Tenet and National Secu-

rity Advisor Condoleeza Rice. Unfortunately, this new type of explosive will make suicide bombing more effective, thanks to the PRC. The book *Unrestricted Warfare* suggests assassinating financiers whose actions harm the Chinese economy.

Logically, the PRC is likely to assist those who share their aims. The head of the United Nations' al Qaeda and Taliban Sanctions Committee recently stated that al Qaeda may be actively looking for opportunities to strike seaports and that it is "just a matter of time" until they obtain and use chemical and biological weapons, and they are on record as attempting to obtain those weapons. China is a likely supplier, as they've been producing such weapons since the 1960s and currently test them in China and North Korea.

Supporting countries and revolutionary movements antagonistic to

U.S. For example, through its front company COSCO, the PLA has been shipping arms to Cuba, via the port of Mariel, according to U.S. intelligence. When PRC military chief of staff General Fu Quanyou visited Cuba in December 2000 he signed a cooperation agreement to modernize Cuba's weapons. In April 2001, PRC president Jiang Zemin went to Havana to sign an agreement to loan Cuba \$400 million. Cuban telecommunications are also being upgraded by the PRC.

The Central Intelligence Agency reports that PRC continues to supply Iran and other terrorist-supporting nations with nuclear and chemical weapons technology as well as operational weapons, including CSS-8 and DF-15 ballistic missiles and various cruise missiles.

General Cao Gangchuan, who is in charge of acquiring armaments for the People's Liberation Army and is a member of the PRC Central Military Commission, previously broke a U.N. embargo to deliver fuel to Saddam Hussein. He has assisted in sending nuclear and chemical weapons assistance to Iran, Libya, North Korea and Pakistan.

The Peoples Republic of China (PRC) is clearly the majority owner of China Ocean Shipping Company.

Despite the 2005 issuance of common stock, the PRC Government remain in the drivers seat of COSCO. The PRC has also recently engineered a capital influx to the company through a sweetheart deal purchase of shipping assets. This caused the balance sheet to reflect a significant growth in assets inflating the stock price of the company. According to Forbes.com, “Public shareholders can only follow Beijing's lead on China COSCO.”

Deep-Pocket Displacement



COSCO's mission statement:

To be a world leader in shipping and logistics services by maintaining trustworthy relationships with our customers, employees and partners, yielding best returns for shareholders, society and environment.

Our ever-lasting promise is to provide best services to our clients and maximize returns to our shareholders.

Our eternal belief is to build up an image of credibility and reliability.

Founded on April 27, 1961 as the pioneer of international shipping carrier in China, together with the reconstruction of national transportation resources on February 16, 1993, China Ocean Shipping (Group) Company (COSCO) has grown into a \$17 billion corporation by clearly focusing on the goal of enabling commerce around the globe. It is an international giant, specializing in shipping and modern logistics, serving as a shipping agency and providing with services in freight forwarding, shipbuilding, shiprepairing, terminal operation, trade, financing, real estate and IT industry as well with an aim at taking one of the leading roles in these areas. Today, followed by more than 40 years of arduous efforts, COSCO has successfully molded itself into a global company with one of the most recognized and admired brand name in the world. As far as the fleet capacity is concerned, we now own and operate a variety of merchant fleet of some 600 vessels with total carrying capacity of up to 35 million DWT, which help make a hit with achieving annual traffic volume of more than 300 million tons.

As a global company with shipping and modern logistics as the core business, COSCO cherishes its abundant resources of hundreds of member units and service networks both in home and abroad. In China, our wholly-owned subsidiaries scattering in Guangzhou, Shanghai, Tianjin, Qingdao, Dalian, Xiamen and Hong Kong own and operate various types of ocean shipping fleets for the shipment of containership, bulk carrier, oil tanker as well as specialized carrier. Abroad, with North America, Europe, Japan, South Korea, Singapore, Australia, South Africa and West Asia as lucrative markets linked by shipping routes, we have formed a transnational operating network capable of reaching all major areas of the world. Ships and containers with the conspicuous "COSCO" logo are shuttling among 1,300 ports in more than 160 countries and regions around the world. Commitment Orientation Seriously Carried Out concentrate the new image of COSCO.

What is more, human resource of up to 80,000 staff members, including approximately 5,000 foreigners, has all the time been put into the first place. With the help of these elite, together with teamwork, COSCO is able to turn its dream into a reality and this is the key to success of COSCO.

Every day, we manage the flow of cargoes, funds and information based on the support of our advanced service network in more than 160 countries and regions worldwide. Every day, we translate advanced services into value for customers through our professional solutions, services and consulting businesses worldwide. We have our own rich history, culture benefits, precious experiences and priceless human resources, and each one is vital to our thriving growth.

All of our efforts are designed to help our customers be more efficient and effective. All of our efforts are designed to help our customers save time and money. All of our efforts are set to help our customers be more energetic and promising and above all strive to be more competitive in the world.

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Executive President and CEO

Capt. Wei Jiafu, President and CEO of COSCO took charge of China Ocean Shipping (Group) Company (COSCO) in November 1998. Prior to that, he had been the senior executive in many subsidiaries of COSCO both at home and abroad. He had supervised COSCO's asset operations and management. During his tenure as the president of COSCO (Singapore) Ltd, he had managed to turn it into a public listed company in 1993, marking COSCO's first entrance into the international capital market.

With over ten years of seafaring experience and as a well-experienced captain, Capt. Wei Jiafu has rich knowledge in international shipping management and operation. He is a senior engineer with a doctor degree in ship and ocean structural design and manufacture and a master degree in shipping.

As the head of COSCO, Capt. Wei has been crown with a number of distinguished awards over the past 5 years in honor of his outstanding contributions to the international shipping industry. The most valuable honors are listed as follows:

'International Who's Who Professional' by the International Who's Who Historical Society in December 2004
'Valuable Manager of the Year' by China's leading media in December 2004
'Economic Booster Award' by the Massachusetts Alliance for Economic Development (MAED) in November, 2004
'Port Pilot Award' by the Port Authority of Long Beach in March, 2004
'Hall of the Fame' by Lloyd's List and Maritime Asia in December, 2003

Capt. Wei was elected as the member of the CPC Central Committee for Discipline Inspection on 14 November 2002, at the 16th National Congress of the Communist Party of China.

The other titles of Capt. Wei Jiafu at home and abroad include:

Panama Canal Authority Advisory Board, member

International Advisory Council of PSA Corporation, member
Boao Forum for Asia Board of Directors, member
China Shipowners' Association, chairman
Harvard Business School Asia-Pacific Advisory Board, member
China Shipowners Mutual Assurance Association, chairman
China Merchants Bank, vice chairman
China Federation of Industrial Economics, chairman
National Guidance Commission of MBA Education, commissioner
School of Economics and Management of Shanghai Maritime University, Honorary Dean
School of Economics and Management of Shanghai Maritime University, Honorary Dean
China Group Companies Promotion Association, chairman
American Bureau of Shipping (ABS), International Committee of Distinguished Shipping Personages, member

Zhang Fusheng

Secretary of Party Committee and Executive Vice President

Mr. Zhang Fusheng took the post of secretary of party committee and executive vice president of COSCO in June 2002. Before that, he had taken leadership roles in Port of Tianjin Authority, the Ministry of Communications, Bank of Communications Beijing Branch and COSCO Container Lines Co., Ltd. He has rich experiences in the fields of terminal operations, human resources and public relations. In January, 2003, Mr. Zhang Fusheng was voted as a member of the 10th National People's Congress.

Mr. Zhang Fusheng graduated from Wuhan Communications Science and Technology University, majoring in transportations. He is a senior engineer with a master degree.

Chen Hongsheng**Executive Vice President and Party Committee Member**

Mr. Chen Hongsheng joined COSCO in 1975 and became executive vice president of COSCO in 1998. He had been vice general manager of Nantong Ocean Shipping Agency, general manager of shipping department of China Ocean Shipping Agency, general manager of COSCO International Freight Forwarding Company Beijing Branch, deputy managing director of COSCO International Freight Forwarding Company, deputy managing director of COSCO container unit, managing director of COSCO International Freight Forwarding Company, deputy managing director of COSCON.

Mr. Chen Hongsheng has long been engaged in international ship agency business, freight forwarding operation and seafaring management with comprehensive knowledge and rich experiences in on-the-spot operations and management.

Mr. Chen Hongsheng graduated from Sichuan Foreign Language Institute.

Li Jianhong**Executive Vice President and Party Committee Member**

Mr. Li Jianhong's previous positions include general manager of Nantong Shipyard, general manager of Nantong Steel Company, general manager of Nantong shipping Company. He was also the chairman of China International Marine Containers Co., Ltd.

In 1995, Mr. Li was in charge of the establishment of COSCO Industry Company and then he became general manager of the company. He had also taken the roles of assistant to COSCO president and chief economist. In 2000, Mr. Li was appointed as executive vice president of COSCO being responsible for shipping-related and land-based businesses.

Mr. Li Jianhong has spent years in corporate operations and management and has accumulated rich experiences in newbuilding and shiprepairing and assets operating and management. He has been awarded an accredited honor as "National Role Model" and "National Outstanding Youth Entrepreneur" due to his excellent performance.

Mr. Li Jianhong is an MBA of East London University, England and has got a master degree in economic management granted by Jilin University.

Xu Lirong**Executive Vice President and Party Committee Member**

Mr. Xu Lirong joined COSCO in 1975. Before becoming executive vice president and chairman of the union of COSCO in November 2006, he has been a marine captain and deputy director of the ship management department of COSCO Shanghai, the general manager of Shanghai International Freight Forwarding Company, deputy managing director of COSCO Shanghai, president of Shanghai Shipping Exchange, and managing director of COSCO Container Lines Ltd.

Mr. Xu obtained a MBA degree from Shanghai Maritime University. Being a senior engineer, he has extensive experiences in corporate management, ship management as well as container business operation.

Zhang Liang**Executive Vice President and Party Committee Member**

Mr. Zhang Liang joined COSCO in 1977 and became executive vice president and chief counselor-at-law of COSCO in November 2006. Mr. Zhang Liang has been serving as manager of human resource department, deputy managing director of COSCO Tianjin, deputy managing director and managing director of COSCO BULK Carrier Co. Ltd.

Being a senior engineer, Mr. Zhang graduated from Dalian Maritime University in the major of ship navigating, and achieved a master degree in transport plan & management from Shanghai Maritime University and a doctor degree in enterprise management from Nankai University. He has rich knowledge in corporate management, human resource development as well as ship management.

Li Yunpeng**Party Committee Member and Director of Party Disciplinary Inspection Office**

Mr. Li Yunpeng joined COSCO in 1976 and became director of party disciplinary inspection office of COSCO in April 2004. He used to serve in COSCO Tianjin being responsible for the general manager's office and human resources affairs. He entered COSCO headquarters in 1998 and had taken a variety of posts as vice general manager of president's general affairs office, general manager of supervisory department, director of organization department, managing director of human resources division and assistant to executive president of COSCO.

Mr. Li Yunpeng received his master's degree in ship and naval architectural design from Tianjin University in September 2001. He is a senior engineer.

Sun Yueying**Chief Financial Officer and Party Committee Member**

Ms. Sun Yueying, senior accountant, joined COSCO in 1982, has become Chief Financial Officer in December 2000 and Party Committee Member of COSCO Group in April 2004. Prior to that, she had been the Deputy Director of the Financial Department of COSCO Tianjin, the financial Director of COSCO Japan, the General manager of Finance & Capital Division of COSCO Group, and the Deputy Chief Financial Officer of COSCO Group.

Ms. Sun has many years of rich experiences in accounting, assets-operating and financing as well.

Ms. Sun Yueying graduated from Shanghai Maritime University in 1982, majoring in maritime accounting.

Espionage. This is a growing threat to US national security with ongoing incidents of Chinese espionage against American interests. Additionally, a rising number of Chinese nationals work at Los Alamos and Sandia National Laboratories, where nuclear weapons research goes on. Information gained from there -- and from the access granted by the Clinton Administration's deals and elsewhere -- have allowed the PLA to modernize its nuclear weapons, allowing better guidance and farther range.

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Sunday, Feb. 13, 2005

China's Big Export

By Erian Bennett

Ning Wen and his wife were arrested last fall at their home office in Manitowoc, Wis., for allegedly sending their native China \$500,000 worth of computer parts that could enhance missile systems. As these naturalized citizens await trial, similar episodes in Mount Pleasant, N.J., and Palo Alto, Calif., point only to the tip of the iceberg, according to FBI officials keeping tabs on more than 3,000 companies in the U.S. suspected of collecting information for China. A hotbed of activity is Silicon Valley, where the number of Chinese espionage cases handled by the bureau increases 20% to 30% annually. Says a senior FBI official: "China is trying to develop a military that can compete with the U.S., and they are willing to steal to get [it]."

But instead of assigning one well-trained agent to pursue a target, "the Chinese are very good at putting a lot of people on just a little piece and getting a massive amount of stuff home," says a U.S. intelligence official. The number of Chinese snoops is staggering, if only because average civilians are enlisted in the effort. FBI officials say state security agents in China debrief many visitors to the U.S. before and after their trips, asking what they saw and sometimes telling them what to get.

The FBI, severely criticized for its investigation of physicist Wen Ho Lee in the mid-'90s, has added hundreds more counterintelligence agents and put at least one in every Energy Department research facility. The bureau also started cooperation initiatives with corporations, but still sees universities as a soft spot, with some 150,000 Chinese currently studying in the U.S. The FBI's three most recent counterintelligence arrests were of suspects who had held student visas at some point. To help sort the few who go to America to spy from the thousands who go there for a better life, the FBI relies heavily on Chinese informants. Says a high-ranking Silicon Valley agent: "We have almost more assets than we can deal with."

With reporting by Timothy J. Burger and Elaine Shannon

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China continues to be a espionage threat to the US.

Defense Department Analyst Pleads Guilty to Passing on Data to Chinese-Connected Business

Monday , March 31, 2008

ALEXANDRIA, Va. —

A Defense Department analyst pleaded guilty Monday to delivering classified information about U.S. and Taiwanese military communications systems to a Louisiana businessman working with the Chinese government. Gregg Bergersen, 51, of Alexandria, a weapons analyst at the Defense Security Cooperation Agency who held top secret security clearances, was arrested last month. Prosecutors alleged he divulged military secrets to a New Orleans furniture salesman, Tai Kuo, who turned over the information to communist China.

In a plea hearing Monday, Bergersen pleaded guilty to a single count of conspiring to communicate national defense information to a person not entitled to receive it. He faces up to 10 years in prison when sentenced on June 20.

According to a statement of facts, Bergersen received thousands of dollars in cash from Kuo since March 2007, including \$3,000 in cash for playing poker during an April 2007 gambling trip to Las Vegas. The document also states that Bergersen thought that Kuo was closely affiliated with the Taiwan Ministry of Defense. He was unaware though that Kuo also maintained contact with a foreign official from Beijing, to whom Kuo was relaying the information.

An FBI affidavit filed last month spelled out detailed evidence against Kuo, including taped conversations in which Bergersen acknowledged to Kuo that he could go to jail for his actions.

The affidavit says that Kuo provided gambling money and show tickets on trips to Las Vegas and in at least one instance caught on videotape, gave Bergersen a half-inch thick stack of folded cash, with a \$100 bill on the outside.

Kuo and a third defendant, Chinese national Yu Xin Kang, 33, face more serious charges that carry a possible life sentence. Both are in jail awaiting trial.

Kuo, 58, is a naturalized U.S. citizen and a native of Taiwan. He is the son-in-law of Xue Yue, a Chinese nationalist general who was a close associate of Chiang Kai-shek.

Prosecutors allege that Kang, 33, served as the go-between for Kuo and the People's Republic of China.

Some of the weapons information passed between Bergersen and Kuo related to Taiwan's new Po Sheng air defense system. Taiwanese military officials have said the disclosures caused some damage but did not compromise key technology.

The Chinese government has called the accusations of espionage in the Po Sheng affair groundless and accused the U.S. of "Cold War thinking."

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Report: Chinese conduct "aggressive and large-scale" espionage against US

By [Jeremy Seiner](#) | Published: November 18, 2007 - 08:29PM CT

The [US-China Economic and Security Review Commission \(USCC\)](#) released a report to the United States Congress late last week accusing China of waging an "aggressive and large-scale industrial espionage campaign" against American technology. The report attempts to turn the tale of industrial espionage into a national security threat by stating that "sophisticated weapon platforms are coming off production lines at an impressive pace and with impressive quality." It also urged Congress to protect "critical American computer networks and sensitive information" from Chinese cyber-attacks.

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- [Germany, UK also investigating government PC espionage by China](#)

The report is not the first of its kind to come out of the USCC, which has been producing similar papers for over five years. Back in 2006, the USCC issued [dire warnings](#) about a government deal to purchase Lenovo ThinkPads, claiming that the Chinese-based company could be shipping the laptops with top-secret bugging devices. The deal went through anyway, and so far, no bugs or backdoors have been found.

Concerns about Chinese espionage are hardly limited to the USCC or even to the United States: both the UK and German security agencies have been [investigating](#) alleged Chinese attempts to spy on government agencies by breaking into computer networks. The Australian government is also concerned about Chinese espionage, after defector Chen Yonglin alleged that over 1,000 Chinese agents were active in that country.



Defector Chen meets the media. Image courtesy Epoch Times.

Industrial espionage is as old as industry itself, and it should hardly be considered surprising that foreign companies and even governments try to steal the enemy's secret sauce whenever they can. Back in the dying days of the Cold War, IT administrator Clifford Stoll wrote a best-selling book about how he uncovered a KGB-backed plan to get East German hackers to steal the source code for Digital Equipment Corporation's VMS operating system. While their cunning plan failed, rival Data General was a little more successful: in *The Soul of a New Machine* author Tracy Kidder recalled how Data General engineer Tom West walked into DEC's offices posing as a technician and proceeded to disassemble a brand-new VAX computer.

Somehow the world survived the threat of industrial espionage back then, but it's a different world today, right? In some ways it is: our reliance on technology and networking, in both industry and the military, is higher now than it has ever been (please don't tell the Cylons). However, the global economy is also far more connected than it has been in the past, and this changes the motivations for industrial nations wanting to go to war with one another. In the past, Russian companies built sturdy but unimpressive Russian computers with Russian parts, and the Americans did all their manufacturing at home. These days, the companies themselves are multinational entities, and simply move manufacturing to wherever will provide the highest profit margin. These days, this means building computers in China, although any other country could be substituted should circumstances change and another nation's manufacturing base prove more efficient.

Because of this interdependency, concerns about industrial espionage from China are difficult to assess. Chinese companies hardly need to send out vast shadowy networks of spies across the globe to steal technological secrets when they already have the contracts to produce almost every electronic device being sold in the United States. So far, no solid evidence has been produced linking the Chinese to military espionage, either (but there have been plenty of accusations). However, with Pentagon officials talking about the problem, we know we haven't heard that last of this.

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Conventional military readiness: Rearming, recruiting and expanding

The PRC is a threat to our national security. According to Chinese arms-control expert Shen Dingli of Fudan University in Shanghai, China is “clearly preparing for a major clash with the United States.” The military continues to modernize, spending \$65 billion per year to upgrade the accuracy of its missiles and their nuclear-warhead delivery systems. A satellite to be used for nuclear-strike positioning has been put into orbit around the Earth. Asia Times and other sources report that China recently purchased Su-27 and Su-30 fighter jets from Russia. The PRC has 2.81 million personnel in its armed forces – more than any other country. The U.S. has 1.36 million.

With a, perhaps, Pollyannish view of the world, the U.S. allows China access to military information. An openness agreement between PLA and US forces gives China military information about how our strategy, tactics and materiel. We share our technology with them and expect them to be our friends.

The PRC is modernizing its armed forces for both defense and offense at a rapid pace. The country is building up an overwhelming force that could successfully invade and hold Taiwan. The United States is losing ground in the balance of forces in the area.

From 2001 to 2004, the PRC spent \$10.4 billion and purchased more weapons than any other country. China has acquired at least two Sovremenny-class destroyers, the Aleksandr Nevsky and the Vazhny (renamed the Hangzhou) -- which carry supersonic anti-ship missiles -- and two Kilo-class submarines. The sophisticated equipment that the U.S. allowed to go to China in November 1996 will provide more accurate targeting of our forces and population centers by these submarines as well as increased shielding of computer chips from high radiation should the U.S. get the chance to respond. This gives the PRC a huge strategic and technological advantage.

Attacking computer networks: The Federal Bureau of Investigation reports that PRC has attempted to attack U.S. government computer networks – including those of the White House. China has begun cyberwarfare against U.S. military sites. We have yet to discover how effective such attacks can be.

The PRC is gaining strategically useful sites for possible military bases, to conduct surveillance and to infiltrate and move weapons and materiel – and to obtain strategic resources. Areas where the PRC owns or leases port space include the Panama Canal, the Bahamas, Los Angeles Harbor, British Columbia, the United Kingdom, Belgium, the Spratly Islands and more.

On the west Asia front, Kyrgyzstan has given China strategic land and is planning to allow China to cross its borders with troops and materiel as needed. Also, the PRC buys

oil and natural gas from Iran and is building a gas pipeline to supply Beijing. Trade and cooperation between the two is increasing. The PRC consumes more oil than any other country.

Another worry is the high ground. The Chinese army's Project 921 has sent a Shenzhou spacecraft, designed for war, into orbit around Earth. It carries a high-resolution camera for military space-based reconnaissance. The PRC will soon have satellites in orbit that have directed energy weapons on them that can take out other satellites. Meanwhile, the United States never assembled its strategic defense network. Satellites are also used to help artillery aim and have many other uses from their abundant presence in orbit.

They are working on electromagnetic pulse bombs that can disable electronics on the battlefield – or anywhere they're set off.

The U.S. is vulnerable to the PRC threat.

"September 11, 2001 very likely is the beginning of the decline of the United States, as a superpower," said Senior Cols. Qiao Liang and Wang Xiangsui in an interview with the Chinese government-owned Ta Kung Pao newspaper in Hong Kong. They said about the attacks on the U.S. that "from a long-term viewpoint, they could be favorable to China."

Many terrorist acts of last ten years were unforeseen because U.S. Intelligence has been ineffective. The 9/11 Commission Report shows an example of our intelligence operations in action. The FBI learned of intelligence related to two of the September 11 hijackers, Nawaf al Hazmi and Khalid al Mihdhar, and they could have been apprehended on *five different occasions* before September 11.

Intelligence budgets fell precipitously from the late 1980s to 2001. A chronic shortages of qualified spies, experienced analysts, and fluent linguists, hamper the system. There are no longer as many (or any?) of our moles gathering intel elsewhere. Intelligence gathering is hobbled by overclassification, conflicting security rules, and myopic management. The Gorelick Wall prevents efficient use of intelligence to protect our homeland. The Church Commission before that began the great weakening of our intelligence abilities.

U.S. borders are not secure. Since September 11, 2001, our airports have been assigned increased security. But Captain William Schubert, a senior Transportation Department official, testified before Congress that U.S. seaports are the most vulnerable conduits through which weapons of mass destruction can be brought into the U.S. and used. The FBI concurred in testimony before Congress in 2004 that

port vulnerability is very attractive to terrorists.

Captain Schubert stated that if just one ship was attacked, all 361 ports in the U.S. would have to be closed for four months, at least, to check all shipping containers currently in the ports at the time.

The U.S. economy would collapse within 20 days. This is according to a scenario developed by the strategic management and technology consulting firm Booz Allen Hamilton. The study incorporated data from trade experts in the federal, state and private sectors. Senator Fritz Hollings warns of the potential threat of Al Qaeda sending a "dirty bomb" in a shipping container or take over an oil tanker as it approaches our port. Meanwhile, suitcase nukes are missing from cash-hungry Russia.

Of the \$2 billion estimated by the Coast Guard to be necessary for adequate port security, however, just \$92.3 million has been earmarked. And though 43 percent of all imported containers go through Los Angeles and Long Beach, only \$6.2 million has been allocated toward that area. Money is needed to develop technical proficiency in detecting smuggled material and to train Customs personnel in interdiction. Congress says Customs is not doing enough fast enough.

U.S. signed on to ISPS code by approving The Maritime Transportation Security Act of 2002. The senate approved the act, initiated by Sen. Fritz Hollings, on November 25, 2002. But compliance has been sketchy. Hollings accuses the Executive Branch of "apparent reluctance to aggressively enhance security at our nation's seaports." (b) Ports have not provided contingency plans to prevent, confront nor react to security threats.

On July 1, 2004, the United Nations passed The International Ship and Port Security code. Captain Charles Piersall chaired the International Organization for Standardization technical committee that published these guidelines which are "designed to facilitate a consistent implementation of the International Ship and Port Facility Security (ISPS) Code worldwide as a way to create a safe and secure international maritime shipping regime." The code calls for ports to submit to the U.N. a plan of action should a security threat appear (and be ready to operationalize it when needed), to restrict the amount of weapons coming into each port, and for port employees to undergo anti-terror drills.

The ISPS has been followed by less than five-and-a-half percent of the 5,500 ports worldwide, according to CBS News.

Before the MTS Act, 2,000 rifles almost made it into Los Angeles illegally, purportedly destined for criminal gangs. Such shipments could still make it through – and may have already. Twice ABC news successfully snuck 15 pounds of depleted ura-

nium into a Los Angeles port. The ABC News test showed the government's first response is not to address the problem but simply punish the perpetrator: After the test, the FBI and DHS began to investigate ABC.

And our land borders are no more secure than sea. We are aware of the high number of illegal immigrants who come over from Mexico to work in the U.S. Chinese nationals know this too and go to Mexico and then cross illegally into the U.S. They also come in from Canada. And if Chinese nationals have successfully entered our country illegally, so could Chinese agents of influence or terrorists, according to Christopher Sands, of the Center for Strategic and International Studies.

What we can – and should -- do to increase U.S. security.

Build international relationships. We must support moderate Chinese leaders who are rising in the system, both clandestinely and diplomatically. We should strengthen ties with countries surrounding China who could also see the PRC as a threat.

Act when and where we are best able to act. Work through the United Nations to support agreements and declarations that will minimize the threat the PRC poses. Support democratic reform in China, both clandestinely and diplomatically.

Rebuild intelligence. Increase intelligence gathering ability so we can recognize and act on threats before they materialize. Tear down the Gorelick Wall. Modify and continue to renew the Patriot Act.

International engagement. Allow and encourage emerging markets to participate in and benefit from international trade. Teach free market economics. Go to the poorest countries. Show how state-operated economies impoverish citizens, while open markets and free trade empower them. As a country becomes richer, the less likely it is to act aggressively.

Invest in education outside our borders. General education in all spheres will help other countries to become an active part of the global market, to a point where aggressiveness has more negative consequences than participation.

Invest in agriculture so countries can support themselves. Share the latest technologies on how to get grain from a rock, so to speak. Arable land can be created and in the least arable places, NASA research into terraforming other planets can be used to make countries agricultural producers.

Protect emerging democracies. Give Iraqi president Jalal Talabani the help he needs to make his country more secure; involve other countries to create interaction and interdependence. Keep our eyes open for other opportunities. Support, promote (and execute?) regime change to increase the number of democracies in the world. Is it impossible that we could actively engage the new Palestinian State and help create and nurture a democratic government there?

No room for Pollyannas

The People's Republic of China presents a growing threat. It is active through support of asymmetrical warfare, such as espionage to gain militarily applicable technology and its support and advice for terrorists. It is gradually increasing the size and efficiency of its military – new satellites and technology give it an edge in space, it has the latest submarines from Russia, it is developing battlefield EMP technology. And it is actively infiltrating our computer networks.

The United States is vulnerable to the PRC. We were unprepared for the terrorist attacks due to our weakening of our own intelligence abilities. This weakness continues in the realm of learning about what Red China is doing within its borders – and within ours. Our port security is only 2% effective. Guns and people and uranium have been smuggled into the country through our sea-ports.

What USIC should do

Continue and expand our campaign to raise public awareness on these maritime security issues and other issue so vital to our national interest through our educational programs, including releasing this and other similar reports.

Continue to apply public pressure on public officials to pass the Port Security Amendment, S. 746 and the House version, H.R. 2376.

Apply public pressure to increase the size of U.S. Customs and Border Control through a combined campaign of public relations, grassroots lobbying and educational efforts.

USIC and its supporters continue to demand that the Congress fully fund the Maritime Transportation Security Act; it is currently being funded at only 4% of the amount that is needed by the Coast Guard. Initiate an information program to increase public participation and knowledge of this debate.

Organize and encourage public demonstrations at official Chinese events in the U.S. to highlight the Chinese government's antagonistic actions and intentions and to shine the spotlight on human rights abuses by China. Institute a program to bring these events into the public eye to increase supporter participation in these events either in person or by proxy.