

## Review

# China's Economic Miracles and the Statecraft

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**Statecraft has invariably been part of economic growth and development model in China. The paper draws on hard facts attributed published accounts in the works of a host of creditable works in the field. Notwithstanding, the hypothesis finds testification in rather tell tale accounts of the Chinese operatives. While threat perceptions of the Chinese espionage activities in the developed and developing world vary, the paper schematically discovers the viability the Chinese economic espionage mechanism as an engine of economic expansion in perspective. The study bears out the dangers of the Chinese economic pursuit on various counts including level playing prowess of the victims. As reengineering could seldom be a substitute for original innovations, the victims of the Chinese economic espionage pursuit could do better to focus on their edge and put their own house in order. The puts across the tool, techniques and pulsate factors behind the Chinese enterprise.**

**Keywords:** Economic growth, development model, China

## INTRODUCTION

Statecraft has invariably been part of economic growth and development model in China. Andrew Jones, Head of security Technology Research, BT Security Centre, Adjunct, Edith Cowan University, has called China's economic espionage operations an affair of 'hi-tech world' (Andrew, 2008) James Mulvenon, Director of DGI's Centre for Intelligence Research and Analysis, has found the 'innovation firms' around the world as most vulnerable targets to Chinese economic espionage operations (John and Baboza, 2010).

The Chinese spy defectors both diplomats and full time students, including Chen Yonglin, Han Guangshen, Li Fengzhi have turned over the names of several spies and their espionage activities in several industrialized countries in Europe, the US, Australia and Japan. In the similar vein, the arrest of Chinese national Huang Kexue on July 13, 2010 by the Federal Bureau of Investigation (FBI) in Westborough, Massachusetts, United States of America (USA) and subsequent interrogations leaves no body in doubt about the penchant of the Chinese nation and its people in the direction.

Roger Faligot, credited for dozens of espionage-related books, including *The Chinese Secret Services from Mao to the Olympic Games*, has gone on record to put the number of Chinese secret agents, operating worldwide to over two millions. Belgium intelligence expert says the Chinese industrial espionage network happen to be not just only scale, but also very penetrating. Besides, investigative studies in the filed, including Ralph D. Sawyer's *The Tao of Spycraft: Intelligence Theory and Practice in Traditional China*, Nicholas Eftimiades's *Chinese Intelligence Operations*,

Tod Hoffman's *The Spy Within: Lary Chin and China's Penetration of the CIA*, and John Byron's *The Claws of the Dragon: Kang Sheng- The Evil Genius behind Mao and His Legacy of Terror in People's China* largely testify how, what and where of espionage activities and practices in vogue.

Economic espionage per se is not some how exclusive domain of China. While being an illegal act, and more often than not outright unethical in form as well as substance, it draws on and thrives as a staple of human history. Nonetheless, it is rooted in the objective reality of competitive modern life, where comparative edge over ones rival constitutes both a shield and promise for future.

As long as individual firm and/ or groups of them get to commit the act, it can be left to nature for self corrections. What is worrisome is the involvement of a nation state. The 'default fallout' is a system disorder, in which 'quest for power' rather than 'cooperative co-existence' comes to rule the roost. There is bound to be no stopping until either the 'world order', built around the United Nations (UN) system, including the apparatus of World Trade Organization (WTO) get to develop zero tolerance for such a enterprise and/ or the socio-economic cost of 'economic espionage led growth and development' turn counter productive.

Threat perception against various shades of the aftermath of China's economic espionage activities and practices, including snow balling effects of the phenomenon in developed as much developing world vary just in quantum while the concern about the net impacts in over all perspectives remain almost identical.

The Australian Security Intelligence Organization (ASIO), the British Security Service (MI5), the German Bundesnachrichtendienst (Federal Intelligence Service), the Japanese Naikaku Joho Chosasisitu (Cabinet Intelligence and Research Office), the US Bureau of Intelligence and Research (INR) and quite a few others have since cautioned stakeholders, including industries and firms and dug out China's broad and specific intent, purpose and modus operandi in its operations.

In its perspective, this academic endeavour is aimed at getting to discover the viability of the Chinese economic espionage mechanism as an engine of economic expansion. Schematically, the paper is thus, organized to focus on: Vibrancies and Sharpness of Incursions; Vision, Tools and Techniques; Pulsating Forces; and, the Unseen Limiting Factors to the Stride.

The assumptions of the study include: China is hitherto in the forefront of the countries that subscribes nation-state-sponsored unsavoury espionage of business and industrial secrets, including intellectual property rights (IPR) for gaining competitive national advantage; while numerous governments around the world have struck alarm bells, and set up new or improved counterintelligence or counterespionage entity as antidote to protect their country's interests in the public and private sectors, China's enterprise in the field in different forms and shape, including condoning, encouraging, and creating a mandate for its outfits continues; and, the Chinese bid of the kind could verily endanger level playing pursuits, and stand in the way of individuals, corporate world and nations getting to compete creatively the ideas and capabilities of each others in larger interests of world at large.

### **Vibrancies and Sharpness of Incursions**

While historically the first victim of economic espionage in the recorded history of the world at the hands of French Jesuit priest Francois Xavier d' Entrecolles (Chinese name: Yin Hongxu) during the reign of Kangxi Emperor in late 17<sup>th</sup> century, China's ongoing stride to gain access to the guarded economic secrets of its existing and potential rivals through stealth means dates back to late 1970s when it shelved its self-imposed alienation of Mao epoch and got connected with the global economic system(French Jesuit priest Francois Xavier d' Entrecolles is considered pioneer in the world of economic espionage. After entering China in 1698 and subsequently joining Jesuit China Mission, he collected information secretly with the help of Chinese Catholic converts on Chinese technique of manufacturing hard-paste porcelain. He had passed on the information to Father Orry, S.J Proctor of the Jesuit Mission of China through a letter. Besides, he is believed to have used direct observation method and consulting printed technical sources). It exists along the outfits of what is called 'competitive intelligence' (CI) in the legal

official channel, located in different industrial hubs in all the three Chinese economic zones (Tao and prescot, 2000).

Where as normal charter of CI operation in China as elsewhere constitute gathering, piecing together, systematically analyzing and last but not the least, managing business information on existing and potential rivals on the strength of business data culled through rigorous process of perusals of electronic and print media materials, the Chinese CI operatives use the auspices of assiduously planned and held international trade fairs in the country and outside both overtly and covertly to supplement, complement and corroborate them to the body of information and knowledge obtained the course of state-sponsored economic espionage (Kabay, 2009). The targets of all such Chinese adventures right now relates to 'technology heavy industries, including computer software and hardware, biotechnology, aerospace, telecommunications, transportation and engine technology, automobiles, machine tools, energy, materials and coating and so on and so forth.

Both in form and spirit, China's economic espionage operations resemble military campaign, where business entities of different denominations resonates operational nuances of military formations on the lines of division, brigade, regiment and so forth. Their tangible and intangible assets, such as proprietary information, are perceived as modern arsenals which need protection and further improvement. The driving force at work behind all Chinese economic espionage adventures is the long standing state policy of 'catching up fast and surpassing' the world powers. It has been further fuelled by the resolution of the 4<sup>th</sup> Plenum of the 16<sup>th</sup> Central Committee of the Communist Party of China (CPC) in November 2004, later adopted by the 3<sup>rd</sup> Session of the 10<sup>th</sup> National People's Congress in March 2005 to build China a 'relatively affluent society in an all round way'.

### **Vision, Tools and Techniques**

Over the period, China has increasingly used economic espionage as complement, if not a parallel track to its 'Three Step Development Strategy' to get to commanding economic position in the world : Step One—to double the 1980 GNP and ensure that the people have enough food and clothing, literally attained by the end of the 1980s; Step Two—to quadruple the 1980 GNP by the end of the 20<sup>th</sup> century that got achieved ahead of schedule right in 1995; Step Three—to increase per-capita GNP to the level of the medium-developed countries by 2050—at which point, the Chinese people will be fairly well-off and modernization will be basically realized. Unprecedented increase in the size of the Chinese economy to the world's top second notch, overtaking United Kingdom (UK) and France in 2005, Germany in 2007, and now Japan, both in terms

of nominal gross domestic product (GDP) and purchasing power parity, is discernibly attributable to this queer mix of growth and development strategy.

The sweep of the Chinese economic espionage missions, in its perspective, encompasses a large terrain of human cyber incursions. Following the arrest Huang Kexue in Westborough, Massachusetts, US on July 13, 2010, it is an open secret that the Chinese sprawling intelligence agencies work hand in hand with the Chinese academic institutions and industry to steal industrial secrets and intellectual property of non-Chinese companies the world over. Nevertheless, the Chinese academic such as Huang Kexue could be sleeper any where and inflict huge damage as it happened in the case of Dow AgroSciences, LLC (Dow) in the guise a researcher.

There have of late been exposures, arrests and prosecutions of a sizable number of Chinese economic espionage operatives around the world. The prominent cases such as Jin Hanjuan, a Chinese software engineer with Motorola, Michigan based Chinese couple Du Shashan and her husband Yu Qin with General Motors, Yu Xiangdong of Ford, Hong Meng with DuPont, and Chung Dongfan with Boeing in America literally stand to testify the assertion of Walter Opfermann that China was since using an array of 'polished methods' from old time spies to phone tapping, and increasingly the internet, to steal industrial and corporate secrets (Kate Connolly, 2009).

A wide range of Chinese and other media reports simultaneously bear out that China does as well use insiders, called 'pasty' in intelligence lingo, diversely, both willing and under duress, to gather sensitive information. Going by a 14-page document, released by MI5 in UK to hundreds of British banks, businesses, and financial institutions, titled "The Threat from Chinese Espionage," the Chinese economic espionage outfits even lay 'honey trap' to blackmail Western businesspeople over sexual relationships (Phillip, 2010).

The Chinese operatives are believed to leave little untouched in the economic espionage game, including 'dumpster diving', innocuous market survey and the like for the purpose. Dawn of the age of internet and other sets of technological development has gone into making the Chinese task much easy. The areas most under attack include car manufacturing, renewable energies, chemistry, communication, optics, x-ray technology, machinery, materials research and armaments. Information being gathered was not just related to research and development but also management techniques and marketing strategies.

### **Pulsating Forces**

To be fair, China is neither alone nor a pioneer in the field of economic now and/ or ever. It has, indeed, taken a leaf from others, including France, Germany, Israel,

Japan, Russia and South Korea. Much of the kind is taking place what Ben N. Venzke attributes to the philosophy 'why spend 10 years and US\$ 10 billion on research and development when you can bribe a competitor's engineer for US\$ 1 million and get the same, if not better results (<http://www.stealth-iss.com/pdf/Economic.pdf>).

The fact that an organization usually does not realize that they have been infiltrated until it has suffered the financial consequences allows the perpetrators to get away undetected relatively easily. Nonetheless, where it is even detected, the reluctance of the targeted organizations to report the crime forthwith for fear of getting their trade secrets further dragged into the wider public arena, serves as catalyst of perpetration by default. Notwithstanding, the vulnerability has been compounded and the prospect of the perpetrators going scot-free increased with mode of movement of documents largely having been changed from 'physical' to 'electronic'. But for the limits of cyber warfare, the espionage outfits normally sneak stealthily and get hold of the documents that could be stored, filed and dispersed on line, including email, electronic files, audio and video recordings, scribbled notes *and* both electronic and paper drafts.

### **Unseen Limiting Factors to the Stride**

China's endgame is simple and straight. It has climbed the ladder of reckonable world economic power and, according to Gene Huang, Chief Economist, *Federal Express*, China has dreams to come to contribute 30 percent of the global GDP in 2020, the stage when the top performer of the time, the US will estimably contribute just 20 percent of the global GDP (Julie Quek, 2010). Harnessing best of its two pronged strategy, discussed at length in the previous section of this paper, China has got the sweet test of lifting 50 million people to middle income category per year. Going by the optimism of Robert Fogel, in 2040, the Chinese economy will thus, reach US\$ 123 trillion from nearly US\$ 8.22 trillion in 2012 (Robert, 2010).

In China's economic stride as such, the shadowy contribution of economic espionage is simply immense. As per conservative estimates, though yet uncorroborated, in a short run perspective, it could run to as much as the contribution of undervalued Chinese currency *renminbi* (Rmb) to China's over all trade surplus against different trading partners, and ultimately much of its foreign exchange reserves, now reaching staggering US\$ 2.6 trillion ( Estimates of Rmb undervaluation varies. It is put at 15-50 percent). This is besides the gains, both now and in times to come through in several business contracts so won in various fields, including award of oil and other strategic metal rights the world over. In long run perspective, Chinese economic espionage, along with other illegal measures

taken to acquire foreign business technology, includes theft of new industrial designs, processes, products and software that can be copied or reverse-engineered, would yield yet another all time abiding competitive edge over the old and new rivals such as India.

However, in the new conditions, when the global economy is bound to be far more and better connected than ever, this Chinese development strategy is bound to face a 'diminishing return' in not a too distant future. Aware of the harsh truth, the Chinese political and economic leadership is of late making clarion call to turn to 'innovations'. As a first step, it has since summoned top Chinese minds in technology and auxiliary fields to synergistically engineer the future growth and development mode of China, including promoting the 'knowledge economy of China kind'. The question that haunts most is whether China's economic miracle built largely through dubious strategy will last for long and, in its generality, whether China would continue to hold centre stage in the world scene as it does?

China is irrefutably a rich nation right now. In the debate as to whether and / or when China will overtake the US in terms of nominal GDP criterion, I find Joel Kotkin is nearer the truth (Kotkin,2010). Demographic factor must not be wished away. Beyond all what Robert Fogel, Thomas Friedman and the ilk say, China has miles to go before it could shed 'developing economy' status (There is not yet universally accepted convention of putting a country on 'developed' and/ or 'developing' country pedestal.). With home of 400 millions young populace in 2050, the US is well set to disprove all the prophecies of 'declinism' (By the end of the first half of the 21st century, the economically active cohort in the US in the age group of 15 to 64 is projected to grow by 42% while it will shrink by 10% in China). I look at the world no different than what it turned out in 1970s and 1980s that proved the studied predictions of George Lodge, Lester Thurow and Robert Reich literally misplaced. Neither Japan nor Europe could come any

near to the US economic muscles. strategy, built on unsustainable twin pillars of economic espionage and skewed monetary and fiscal policies, has since outlived its utility. Anti-espionage Acts, put in place in quite a few countries stand to constrict the moving space for the Chinese outfits. Reengineering can seldom be a substitute for original innovations. However, there is little to lower the guard in the short run.

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