

May 15, 2009

The Thin Line Between Espionage and Commerce

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Adam Smith wrote in *The Wealth of Nations*, “The wealth of a neighboring nation, however, though dangerous in war and [politics](#), is certainly advantageous in trade. In a state of hostility it may enable our enemies to maintain fleets and armies superior to our own; but in a state of peace and commerce it must likewise enable them to exchange with us to a greater value, and to afford a better market.” Too many advocates of Free Trade, which means trade by private interests “free” of constraints imposed by [governments](#) concerned with war and politics, have embraced the first sentence in Smith’s statement while neglecting the second with its qualifications. They would trade with any foreign power as long as they could reap “a greater value” to themselves in profit. At the same time, wise governments restrict trade with countries thought to be “in a state of hostility” whether actual violence has yet to break out or not.

Corporate [lobbyists](#) for groups like the National Foreign Trade Council, Business Roundtable and Chamber of Commerce are always working to lift trade sanctions and avoid limitations on technology transfers to rogue regimes from Iran to Cuba. Their first priority, however, is the People’s Republic of China (PRC). Nothing must interfere with trade and investment in the supposed “better market” of the rising Asian power. Yet, anyone concerned with the security of the United States who keeps up with current events knows that Beijing is a dangerous rival in politics, and is using its growing economic capabilities to create fleets and armies that threaten American and allied interests.

On May 13th, the U.S. Attorney’s Office for the Eastern District of Virginia announced that a [Department of Defense](#) official had been arrested for spying for Communist China. The Department of Justice alleges that James W. Fondren, Jr., who worked for the U.S. Pacific Command, had for nearly four years been passing information to Tai Shen Kuo, a naturalized U.S. citizen with business interests in China. Fondren was a “consultant” to Kuo and also met with Kuo’s PRC handler. Kuo introduced the Chinese official to Fondren, describing him as a political researcher and consultant to the Beijing government. “The complaint unsealed today alleges that Mr. Fondren conspired to steal our nation’s secrets for a [foreign government](#), placing his own interests over those of the citizens he served as a U.S. government employee,” said Executive Assistant Director Arthur M. Cummings, II, of the [FBI](#) National Security Branch, in a press release.

The Fondren case looks like traditional espionage focused on military intelligence even if done under the guise of business. It is, however, only the tip of the iceberg. The larger effort is aimed at securing American technology to aid Chinese industry. As retired FBI agent I. C. Smith, who was posted to the State Department as Chief of Investigations, Counterintelligence Programs, told the U.S.-China Economic and Security Review Commission April 30th, “The Chinese make political mischief for our nation at every opportunity and there is the massive attempt to obtain, by any means, this nations technology.” He went on to explain, “We, as a country, make it relatively easy for the Chinese. We allow them to purchase our companies, to send literally thousands of their students to study in this country in all disciplines, delegations have almost a

free rein in traveling about the country and politically, we haven't shown any political will to punish the Chinese for their frequent violations and activities.”

Beijing's emphasis on industrial espionage is part of a larger campaign of economic warfare meant to shift the balance of power. There is nothing new about this kind of effort in history. In his new book *The Industrial Revolutionaries: The Making of the Modern World, 1776-1914*, Gavin Weightman devotes his first chapter to spying, “There were spies everywhere in eighteenth-century Britain. Though they disguised themselves in a variety of ways, they all had one ambition – to unearth the secrets of Britain's industrial success. They came from many different European countries, from Russia, Denmark, Sweden and Prussia, but the most eager of the spies were from Britain's greatest rival, France.”

The long 18th century, extending through the Napoleonic Wars that ended at Waterloo in 1815, is often called the Second Hundred Years War between England and France. It was fought on a global scale with both cold wars and hot. It ushered in the Industrial Revolution. Napoleon tried to dismiss the British as a “nation of shopkeepers” but it was London's superior economic strength that allowed it to out build the French fleet and to finance coalitions of allies who could field armies larger than what Paris could deploy. It was a conflict of attrition eventually won by the side with the greater resources.

On March 24, the U.S.-China Commission held a hearing on “China's Industrial Policy and Its Pillar Industries.” One of those who testified was Ralph E. Gomory Research Professor at New York University's Stern School of Business and President Emeritus of the Alfred P. Sloan Foundation. He told the Commission how Beijing “will sometimes also subsidize American- or partly American-owned companies.”

“In this way, China can make it profitable for these companies to develop production facilities in China and, more recently, to expand R&D as well...Often the output of these facilities goes to the U.S. market. There, with the effect of subsidy, low labor costs, or up-to-date methodology – or all three – they can often outcompete U.S. firms actually working in the United States.

The result is that U.S. companies are contributing to the development of China and simultaneously contributing to the loss of jobs and destruction of industries in the United States. Nevertheless, they are doing these things in the pursuit of the widely accepted corporate goal of maximizing profits.”

One of China's pillar industries is automobiles, a strategic core sector of any modern manufacturing economy. In the United States, the auto industry is in deep trouble due to heavily subsidized competition from foreign rivals who have taken more than a third of the American market away from American firms. Both Presidents George W. Bush and Barack Obama vowed to save the U.S. automakers, but neither fully considered how to do so within the context of international rivalry.

The British newspaper *The Daily Telegraph* reported May 14th that General Motors intends to shift more production to China. The story cited “a spokesman for GM in Shanghai said it was ‘only a matter of time’ before vehicles made in China are imported into the company's home

market, in another blow to the US car industry.” GM has received \$15.4 billion in Federal funding to promote restructuring. The justification for government subsidies on this scale is to maintain industrial capacity in the United States. The Obama administration must make clear that it does not expect American taxpayers to finance the development of the Chinese auto industry. GM has seven joint ventures with Chinese firms, some of which are state-owned. GM has also invested in research and design facilities alongside its Chinese partners, including setting up technology institutes at two Chinese universities. The massive investment Washington has made in GM, as well as considerations of national security, entitles government officials to make the decision for GM not to import anything from Chinese industry into the United States.

The U.S. already runs an annual trade deficit with China that has given the Beijing regime over \$1.5 trillion since 2000. It is not a “better market” for net American exports, but a transfer of wealth that has fueled China’s rise as a global rival to the United States. The economic tide needs to be rolled back, not allowed to inflict further flood damage to America’s industrial and financial foundations. Corporate executives who place their own interests over those of the country are operating on no higher moral plane than spies arrested for selling secrets for money. And those government officials who look the other way, either because they are pandering to private interests or because they do not understand what is at risk, are failing in their duty. They should either wise up or be replaced.