Ah, Let Me Count the Ways China Is Stealing our Secrets, Part 2

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By MICHAEL P. COLLINS, Author, *Saving American Manufacturing*

RETRACTION: When Chem.Info first published this article, it mistakenly claimed that Sixing Liu pled guilty to exporting defense department data to China. The author regrets this error and all mentions have been eliminated below.

This is part two of a two-part piece. Part one can be found here *[1].*

4.) Cyber Spying

Cyberspace refers to the transfer of information via compact discs or email. It makes it possible to transfer enormous amounts of information instantaneously anywhere in the world. Examples abound of cyber espionage:

1. David Yenb, an employee of Valspar, downloaded proprietary paint formulas valued at $20 million with the intent to sell them to China.

2. Meng Dong, a DuPont Corp. research chemist, downloaded proprietary information on organic light-emitting diodes with the intent of sending them to a Chinese university.

3. Yu Xiang Dong, a product engineer with Ford Motors, copied 4,000 Ford documents onto an external hard drive with the intent of transferring the data to an auto company in China.

4. McAffe Company attributed an intrusion attempt by a company with a Chinese IP address to steal data from a computer system of a petro-chemical company.

5. U.S. Intelligence agencies reported to Congress in November 2011 that both Russia and China steal technology information over the Internet as a matter of national policy. The report says that cyber espionage has focused on communications technology, scarce natural resources, clean energy, health care systems, pharmaceuticals, military data (especially maritime systems), and air and space technologies. This report is the collective assessment of 14 different agencies.

5.) Chinese Investments

There is evidence that the Chinese want to invest in building plants in America because it is another way of getting our technology. The Chinese technology giant Huawai tried to buy a small computer company, 3 leaf, for that very reason. Fortunately, the Committee on Foreign Investment of the U.S. screened the purchase and rejected the proposal on the grounds it was neither fair nor transparent.

6.) Tariffs, Regulations & Subsidies

Solar panels were invented in American in the 1950s, and many American companies have invested to take advantage of the need for alternative energy here and around the world. But, China also sees the demand and its central government wants to take over the U.S. market. The tactic is to offer its producers huge subsidies, exporting all of its production and dumping at low prices to gain market share

It is the same with wind towers. China has recognized that this is growing market all over the world, and they have decided to engage in predatory pricing and subsidies to capture it. A complaint by a group of American wind tower manufacturers lists 40 subsidy and assistance programs, ranging from cash grants and subsidized steel to tax breaks. The U.S. companies are asking for countervailing duties of up to 64 percent on their imported towers.

Recently, the Chinese decided that America’s sports utility vehicles were being dumped on the Chinese market and they imposed a 22 percent tariff on all imported SUVS. The fact is that we sell very few SUVS in China. The Obama administration has formally complained about the tariff, but China’s Commerce Minister said it was a legal tariff, and if “the U.S. thinks otherwise, it should sue.”

The response from our U.S. trade representative was: “They want to talk to Congress and industry officials on how best to respond.” It is these weak responses from whatever administration is in the White House that I think makes the Chinese thumb their noses at us, because they know there won’t be penalties.

7.) National Security

The U.S. Office of the National Counterintelligence Executive issued a report that reads, “China is driven by its long-standing policy of catching up fast and surpassing western powers. In terms of military technology, China is focused on two areas: marine systems designed to jump-start the development of blue water navy and aerospace systems that will allow China’s air force air supremacy.”

In 2009, senior government officials said that Chinese spies infiltrated the electrical grid and left behind software that could be used for disruptions of the system.

A study by Michael Weber of the University of Texas shows 13 of 16 manufacturing sectors that support America’s military arsenal suffered erosion because of off-shoring products like armor plate steel, integrated circuits and night-vision goggles, which are now obtained overseas. The dependence on foreign suppliers makes the nation vulnerable to shortages in emergencies. There is also the “danger that an overseas manufacturer could place a Trojan horse component with a virus or hard-to-detect flaw into critical equipment.”

If innovation is the key to America’s future and the only durable strength we have to compete, I wonder why more people aren’t worried. There are two fundamental problems with innovation and technology. First, there are many signs that our once commanding lead is slipping. Recent reports (based on hard data, such as research and development [R&D] spending, new patents and venture funding) from the Boston Consulting Group show that the U.S. has slipped from its number one position to number eight in the world.

But an even more ominous scenario is the fact that we are losing some of the technologies we have already developed because of espionage, counterfeiting and outright theft. It doesn’t make very much sense to continue to invest in education, training, and R&D by filling the gas tank from the top, while the technology and innovation is leaking out of a man-made hole in the bottom.

It is hard to say if China is still the red menace from the Cold War, or if they have morphed into a new form of winner-take-all amoral capitalism. Regardless of how you define their system or policies, China does have a clear framework on how they view the U.S., and they are very focused and unified in their policies towards us. Make no mistake about it. China’s efforts to get our technology are a state-sponsored effort, and it is succeeding.

On the other hand, the United States can’t seem to get beyond our political bickering and we have not formulated a coherent policy on our trade problems with China. I think China views us as a weak nation that can’t get its political act together and is ripe for the taking. Why shouldn’t they continue to take advantage of us with the same policies that have led to strong economic growth, as long as they are allowed?

I think it is becoming more obvious that we are indeed in a trade war with China

and we are losing. Innovation and technology are our only real advantage in this world-wide struggle to stay on top as the leading economy. We have to find ways to capitalize on what we do best, and better ways to protect our inventions from countries that will try and get them any way they can. I think it is time to send a signal to China that we won't be bullied and draw a line in the sand.

A good first step is to test China's future intentions by appealing to the World Trade Organization for sanctions because of currency manipulation, and then to add surcharges to their imports. This might have enough leverage to get them to at least negotiate on their espionage activities.

To read part one of this two-part series, *[1]*please click here *[1]. Michael P. Collins is the author of the book* Saving American Manufacturing*. You can find more related articles on his website via* www.mpcmgt.com *[2].*

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