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Even Spies Embrace China's Free Market

U.S. Says Some Tech Thieves Are Entrepreneurs, Not Government Agents

By Ariana Eunjung Cha
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MOUNTAIN VIEW, Calif. -- Engineers Lan Lee and Yuefei Ge had drafted a business plan that they promised would roil the U.S. microchip industry. Using blueprints they allegedly stole from their [Silicon Valley](#) employer, the men proposed to reproduce a super-fast chip in [China](#) at a much lower cost.

The documents, recovered by [FBI agents](#), included a contract with a venture-capital firm in [Beijing](#) that would bankroll part of the estimated \$3.6 million the would-be entrepreneurs needed and seek additional funding from the Chinese government.

The case of Lee and Ge, who pleaded not guilty in October to charges of theft of trade secrets and the more serious charge of economic espionage to benefit a foreign government, is one of more than a dozen involving the alleged sale or attempted sale of purloined technology to China that are making their way through U.S. courts this year.


Stolen from laptop computers and luggage of engineers working for U.S. companies en route to China are designs for some of the country's most sophisticated technology -- flight-simulation programs, microwave devices, electronic propulsion systems for submarines and night-vision equipment.

On Monday, U.S. officials announced arrests in [Alexandria](#) and [California](#) in connection with alleged plots to steal high-tech military secrets for the Chinese government. In Alexandria, [Assistant Attorney General Kenneth L. Wainstein](#) said "there are a number of countries that have proven themselves particularly determined and methodical in their espionage efforts." China, he said, is one of those.

The plots that prosecutors described on Monday allegedly involved direct contacts between the defendants and the Chinese government. But in many cases on the books, the question of involvement by the Chinese state is tricky to pin down because the line between where the government starts and ends is constantly shifting. U.S. officials say there is an underground bazaar of people trying to sell information to the Chinese government and military but that no one knows how many deals are made or whether the government is soliciting such business. Nonetheless, U.S. authorities fear the potential consequences.

The Chinese government has repeatedly denied being involved in any high-tech theft in the United States. Foreign Ministry spokesman Liu Jianchao has called the allegations "insulting" and "misleading."

"The so-called accusation against China on the issue of espionage is totally groundless and has ulterior



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motives," Liu said at a press briefing Thursday.

The U.S. government's reports note that many of the thieves caught were not Chinese agents in the traditional sense. The [Office of the Director of National Intelligence](#) says the perpetrators did not come to the United States at the direction of the Chinese government to steal technology; they were entrepreneurs who figured out that they could make quick cash by selling it to China.

There is a "seismic shift toward increasing reliance on the private sector in the intelligence world," for information about technology, Joel F. Brenner, national counterintelligence executive in the Office of the Director of National Intelligence, said in a recent speech.

In the United States, some Chinese Americans have expressed worry about racial hysteria, that Chinese Americans and Chinese nationals are being targeted in the way Russian emigres were accused of spying for the [Soviet Union](#) in the 1950s. They say U.S. law enforcement officials have unfairly turned what would otherwise be run-of-the-mill charges of stealing trade secrets into international espionage cases simply because defendants are ethnic Chinese.

"There is a mentality that pervades all of Washington, which is that China is our big adversary and enemy -- if not today, then tomorrow -- so we need to deal with them on that basis. So there are a lot of heavy biases," said George Koo, a business consultant in Silicon Valley who is a member of the Committee of 100, a group of influential Chinese Americans that was founded by the cellist [Yo-Yo Ma](#) and the architect I.M. Pei.

While dozens have been caught in recent years illegally sending high-tech wares to other countries and are serving sentences for violating export laws or stealing trade secrets, only three people have been convicted of doing so to help a foreign government under the Economic Espionage Act of 1996. All were from Silicon Valley and all involved China.

In December 2006, Ye Fei, a U.S. citizen from China, and Ming Zhong, a permanent U.S. resident from China, pleaded guilty to stealing designs for a microchip from their employer and attempting to take them to China to start a competing company.

In August 2007, Xiaodong Sheldon Meng was convicted of stealing computer code from Quantum3D for a military flight-simulation program and trying to sell it to China's navy. Meng is scheduled to be sentenced this month.

China's efforts to become a technology power began with a government initiative known as the 863 program. Launched under [Deng Xiaoping](#) in 1986, the program paid for \$1.3 billion worth of research and development throughout the country. Its goal was to narrow the gap between China and the West in a dozen sectors, including space tracking, nuclear energy and information technology.

In the beginning, the program boasted of its transparency, issuing annual reports detailing where the money went and its major achievements. But in 2002, the government abruptly stopped issuing updates, and today it won't even reveal how much money it is giving out.

Larry M. Wortzel, a former military intelligence officer who recently retired from the [Heritage Foundation](#), a conservative research organization in Washington, said the program is part of the climate in China that rewards stealing secrets. "The 863 program is related to state-directed traditional and economic espionage, but it is only one of the actors," Wortzel said.

Wortzel said the connections between government and so-called private enterprises seeking to purchase or steal U.S. technology were evident in the visa applications he investigated when he worked at the U.S. Embassy in China. He said that in a number of cases, he found that the license applicants in China had listed no government or military affiliations, but when he went to their addresses, he found they belonged to a military institute or defense industry research office.

"This implies that organizations or people in China are deliberately concealing their defense, military or government affiliation in order to get access to technologies that would otherwise be restricted to them in licenses by the U.S. government," Wortzel said.

U.S. officials and analysts say that in addition to promoting lawful research, the Chinese government is also directly or indirectly encouraging economic espionage.

Lee and Ge, for example, pinned their hopes for their new company on getting funding from the 863 program, according to the U.S. attorney's office.

Ye and Zhong, who were former employees of [Transmeta](#) in [Santa Clara](#), Calif., also hoped to develop their stolen technology through the 863 program, according to court records.

Arrested in 2001 at [San Francisco International Airport](#) as they were about to board a plane for China, Ye and Zhong carried in their luggage plans for some of the top integrated-circuit technology in the world, stolen from Transmeta as well as [Sun Microsystems](#), [NEC Electronics](#) and [Trident Microsystems](#).

Ye and Zhong sought to develop the technology through a company called Supervision, based in the eastern Chinese city of [Hangzhou](#), according to the indictment. It also alleged that the men were working with an unidentified university professor "who was assisting in obtaining funds from the 863 program."

Contacted by telephone, Yan Xiaolang, who is listed as an investor in Supervision in registration papers and is a director of the electrical engineering department at Hangzhou University, confirmed that worked with Ye and Zhong. But, said Yan, who is head of an integrated-circuit expert group within the 863 program, neither the company nor the government knew that the plans were stolen. "I did not know them for a long time and had little contact with them. I have no idea about their activities," Yan said.

In the other case, Lee, a U.S. citizen, and Ge, a Chinese national, became targets of law enforcement under circumstances that remain unclear, as many of the documents related to the case remain under seal. Lawyers for Lee and Ge declined to comment as did officials at their former employer, NetLogics Microsystems. Lee and Ge are free on \$300,000 bonds and still reside in Silicon Valley. They are scheduled to appear in [U.S. District Court](#) in [San Jose](#) on Feb. 25, at which time a trial date may be set.

Lee and Ge allegedly created a front company, SICO Microsystems, registered in [Delaware](#), that would develop and sell microprocessors made from the stolen blueprints.

The stolen documents included design plans for a chip that could make rapid decisions about information moving through the network and that could significantly improve everyday tasks such as searching the Internet or securing financial transactions.

SICO in 2003 signed a partnership deal with a company in China run by venture capitalist Liu Baisen. Liu's firm agreed to secure funding from 863 and the General Armaments Department, which is a branch of the military, according to the indictment.

On Lee's home computer were documents regarding negotiations with the Chinese military, according to the indictment. In one e-mail, an unidentified associate assured Lee that the Chinese government and army are "not that scary" and that they "are only help and support, and satisfy our various needs," the indictment said.

In an interview at his office in Beijing, Liu said he was introduced to Lee and Ge through a family friend. He said he had no idea the technology was stolen. Liu said the friend told him that he knew some smart engineers in the United States who had designed a very powerful chip and "if we can make this chip we can make 500 million U.S. dollars."

"I was intrigued. Wouldn't anyone be?" he said. "I didn't understand the technology well. All that I understood was that it would make money."

Asked about any ties he has with the Chinese government and military, Liu answered with a question: If the government had been involved with Lee and Ge's plans, wouldn't they already be making the chips?

One of the four addresses listed in Liu's former company's official registration papers is a room in the basement of a heavily guarded, unmarked government security complex in Beijing's Zhongguancun neighborhood, which is known as China's Silicon Valley. Liu said he previously worked there and still had friends who gave him, rent-free, an office from which to run his business.

Researcher Richard Drezzen in New York contributed to this report.

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