Peace Dividend

In the name of defence conversion, some well-connected American businessmen have transferred state-of-the-art communications technology to a company half-owned by the Chinese army, alarming some U.S. officials.

By Bruce Gilley in Hong Kong

The olive-green army jeeps clustered in the driveway of the white-tile office block at 6 Huayuan Road in Beijing are the only signs that betray the otherwise drab structure. Inside, former Chinese soldiers assigned to a firm called Galaxy New Technology are at work developing what could become the nerve centre for the Chinese army in the next century. And they are doing it with big help from high places in the United States.

An American-backed joint venture founded by a close friend and official adviser to Defence Secretary William Perry has transferred sensitive communications technology to Galaxy. To do so, the company circumvented road blocks thrown up by Pentagon and National Security Agency (NSA) officials.

The technology transfer to Hua Mei (or China America) Telecommunications, a 50-50 joint venture between the U.S.-based partnership SCM/Brooks and Galaxy, has alarmed U.S. national security officials. They say the Chinese army could use it to substantially upgrade its war communications systems. In a move likely to fuel the fears, the former chief of telecoms development for the Chinese army, Senior Col. Deng Changru, was made president of Galaxy in late December, according to company sources.

Ever since Perry became deputy defence secretary in 1993, “defence conversion” has been one of his most frequent buzz-words. This path to peace requires major powers to dismantle their nuclear arsenals and turn their arms industries to producing civilian goods and services. In the case of China, Perry has pursued the policy despite strong objections from Congress. But two years after Perry announced the formation of a U.S.-China Defence Conversion Commission, the only tangible result is a lucrative business deal for Perry’s friends, and a springboard for China’s efforts to develop a modern military-communications system.

There is no evidence that Perry or his friend, John Lewis, a professor of politics at Stanford University, violated any law. But a Review investigation shows that Lewis, formerly executive director of Chicago-based SCM (now called SC&M), sought and apparently obtained Perry’s help in overcoming internal objections to the Hua Mei technology sale. And Lewis carried on his work with SCM for at least four months while he served as a member of Perry’s Defence Policy Board.

More recently, SC&M’s chairman, the former Democratic Senator Adlai Stevenson III, has been lobbying other Clinton administration officials, including Secretary of State Warren Christopher and ambassador-designate to Beijing, Jim Sasser, for expansion of the Hua Mei project.

While the technology that Lewis and Stevenson have managed to sell to China is no weapon, it could give China the nerve system to effectively manipulate its newly acquired military muscle. Despite a 10-year effort to upgrade its navy, air power and rapid-deployment capability—some of which went on display recently in military exercises in the Taiwan Strait—China has lacked a modern communications system to bind together the various services.

The story of how the laudable goal of promoting peace through civilian cooperation was perverted to give the People’s Liberation Army more teeth and bring in cash for some well-connected Americans is a case study of power and money in the U.S. The second thoughts now swirling around Hua Mei could open a long-suppressed debate about what America’s military ties with China should be. But it could be a case of closing the barn door after the horse has bolted.

Since its founding in 1993, Hua Mei has invested $12.7 million to build an advanced telecoms network in the southern Chinese city of Guangzhou that is now being tested at four prototype sites in the city. It employs a high-capacity fibre-optic system, known as a broad-band integrated services digital network (B-ISDN), and high-speed or asynchronous transfer mode (ATM) switches, which allow the combining of voice and video with other forms of data. None of the technology had been available to China previously. "It’s the most advanced in the world today," says Gary Savage, chief operating officer for Hua Mei in Guangzhou.

This month, Hua Mei will seal another deal to provide the same system directly to the powerful General Logistics Department of the PLA, ostensibly for use in the army’s more than 200 hospitals.
however, lambasted as "misleading" Lewis's claims that the technology to be transferred was freely available on world markets and was already being marketed in China by other countries. It said that the broad-band fibre-optic system and associated equipment "is very advanced, state-of-the-art . . . and has never been licensed to the PRC."

The technology includes crucial items which the Chinese military has been seeking in order to upgrade its battlefield communications systems, notes John Frankenstein, a specialist on PLA weapons programmes at the University of Hong Kong.

The latest Western battlefield communications systems combine the functions of command, control, communication, computers and information, known as C4I. Western advances in this area and China's "counter-measures and strategies" were one of the main topics addressed at a high-tech warfare seminar held by the PLA in mid-October 1995, according to the December issue of the PLA-run defence technology magazine Contemporary Military Affairs.

With the help of the kinds of technology going into Hua Mei, the Chinese army could quickly develop cutting-edge wartime command systems, in which real-time visual images are available to commanders, according to Frankenstein. "The only difference is that for the military, this means displays and maps rather than talking heads," he says.

Senior Pentagon sources say there is debate about what kind of C4I systems the PLA might want to develop, but agreement that the technology going into Hua Mei could help them jump from a 1950s to a 21st-century communications system. Observes Paul Godwin of the National War College in Washington: "You have to assume that the Chinese military is going to get their hands onto any technology transferred to such a venture. They will use it for C4I."

Company officials at Hua Mei from both sides deny the charges. "I don't see that what we're bringing in there is intended for military use," says Greg Christoffel, president of Brooks Telecommunications International and the U.S. deputy general manager of Hua Mei.

Adds Guan Yizhang, Chinese deputy general manager of Hua Mei: "We are under the army, but our purpose is principally civilian applications. None of us [the Chinese staff assigned to Hua Mei] are soldiers. We are developing this technology for profit only."

Stevenson acknowledges that "there may have been concerns in the intelligence community" about the technology transfer, but he says most U.S. officials believed that "the opening of China to the efficient transmission of information would not only assist its economic development but be a liberalizing influence. Besides, the B-ISDN network was to be for commercial applications only—and still is."

Nonetheless, inadvertently helping the PLA to develop C4I systems is the top con-

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Hi-tech Tangle
The elite network

**US Department of Defence**
William Perry: deputy secretary
since Mar. '93
secretary since Feb. '94
John Lewis: advisor since Aug. '94

**SC&M International**
Lewis: executive director
until Jan. '95

**SC&M/Brinks Telecommunications**
Perry: co-convenor
Levent: co-convenor

**Stanford University Centre for International Security and Arms Control**
Lewis: founder + director
Perry: co-director
Hua: visiting fellow in '93
Hua: fellow since '87

**People's Liberation Army (PLA)/Central Military Commission (CMC)**
Ding: director
Hua: deputy director
Hua: nuclear researcher
mid-'70s
NIE: senior advisor,
wife of Ding
Ding: chief of military telecoms until
Jan. '95

**Commission for Science, Technology and Industry for National Defence (COSTIND)**
Ding Hengjie: director
Hua Guomao: deputy director
Hua: visiting fellow in '93
Hua: fellow since '87

**Galaxy New Technology**
Ding: president

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The document was written in response to a plea from Lewis to Perry, then deputy defence secretary, for a green light after the NSA rejected the plans. "We have been informed that, primarily because of anticipated NSA objections, a policy change would be required to authorize the required licence," Lewis said in the April 26, 1993, letter to the Undersecretary of Defence-designate Frank Wisner, copied to Perry.

In arguing for the sale, Lewis cited broad political objectives: It would "revolutionize the free flow of information to and from China and within China" and "hasten the creation of an informed middle class" in the country. He also warned that "failure to approve the licences will forfeit the advantage to U.S. competitors."

The Pentagon's technology directorate,
cern when the Pentagon’s Defence Technology Security Administration considers applications to export telecoms equipment to China, according to Lt.-Gen. John Richey, the officer at the agency in charge of checking exports of “dual-use” technology, which can be used by both the military and civilian sectors. “With the rapid changes in such technology now, almost anything could help them,” he says.

The Pentagon never had a chance to screen the deal, however. That responsibility passed to the Commerce Department when Cocom—the Western arrangement to control sensitive exports to communist countries—was dissolved in March 1994. But what’s bewildering, say Richey, is why Commerce officials didn’t consult the Pentagon before approving the Hua Mei deal. The Commerce Department still passes on to the Pentagon about 10% of all requests to sell telecoms equipment to Asia—virtually all of which concern technologies going to China which could be used in CI.

Richey rejects the SCM/Brooks assurance that Galaxy can be trusted because it is not an arms maker: “We see any sale to a PLA company as being the same as dealing with the PLA. In such a situation they should be coming to us for licences,” he says.

Hua Mei’s impeccable pedigree appears to provide the best explanation for the deal’s unobstructed passage. Conceived in 1992 by Lt.-Gen. Huai Guomo, a deputy director of Beijing’s defence industry ministry, the Commission of Science, Technology and Industry for National Defence (Costind), the venture became the show-piece of renewed Sino-U.S. military ties.

When Hua put out feelers in 1992 to attract American technology and investment for an advanced telecoms venture, his contact in the U.S. was Hua Di, a former nuclear-weapons researcher and later U.S. studies expert who defected after the Tiananmen Square shootings. Hua was then a researcher at Stanford’s Centre for International Security and Arms Control, whose co-directors were Perry and Lewis. “Lewis and I were involved as matchmakers,” recalls Hua. “Hui is my good friend.” (Hua was later the originator of the defence conversion commission, which he proposed to Perry the following year.)

In November 1992, Lewis, as executive director of SCM, visited Beijing with Stevenson to discuss the project with Costind officials. “I suggested to Chinese officials that a foreign joint venture might be able to secure licences for next generation telecoms technologies, enabling China to ‘leapfrog’,” recalls Stevenson.

A deal was struck and St. Louis-based Brooks Telecommunications Corp. was enlisted to provide technology and expertise. Hua Mei was created in May 1993 with Stevenson as chairman of the U.S. side, and Lt.-Gen. Nie Li—a daughter of the Chinese revolutionary leader Nie Rongzhen, and wife of the Costind director, Gen. Deng Hengqiao—as chairman of the Chinese side.

Perry was called to Washington in February 1993, becoming deputy defence secretary the next month. As Lewis’s letter of April 26, 1993, shows, the pair continued to hold meetings over securing an export go-ahead for Hua Mei against Pentagon and NSA objections after Perry was appointed. Recalls Brooks’s Christoffel: “Stevenson and Lewis were working on getting a waiver from Cocom rules.”

Fortune struck twice in March 1994, when Cocom was dissolved and Perry was made defence secretary. The technology sale could now be quietly approved without any necessary reference to the Pentagon or the NSA. Recalls Lewis: “There was no problem in getting permission. Military application was not an issue.” Adds Christoffel: “I don’t believe even a filing was required.”

Perry appointed Lewis to his Defence Policy Board in August 1994. Lewis insists that he left SCM at that time. “I did a lot to set up the company and structure the deal. But I was not involved when decisions were made about what technology to transfer,” he says. According to Christoffel, however, his resignation from the SCM board only occurred in January 1995.

Technology contracts for Hua Mei were quickly signed. In September 1994, AT&T and General Datacomm announced they would supply essential equipment and technology to build the broad-band system, including China’s first ATM switches.

In October 1994, Perry became the first U.S. defence secretary to visit China, and Lewis went in tow. The pair took part in the first meeting of the Defence Conversion Commission in the inland city of Chongqing, where Hua Mei was made the first—and so far only—project given official blessing from both sides.

After a slow first year and a half, Hua Mei now raced ahead. Construction and import of technology in Guangzhou began at the end of 1994 and plans set afoot for a high-powered official company opening the following summer. Stevenson cajoled the White House into agreeing to send a senior official to the June 1995 ceremony. Taiwan President Lee Teng-hui’s visit to the U.S. sabotaged the plans, but Beijing was impressed nonetheless.

“Tensions between the Chinese government had attached so much importance to the venture is its perceived senior-level support from the U.S...” according to a source on the Chinese side of the company. “That’s what they look for.”

More recently, Stevenson has held private meetings with top U.S. officials, which Hua Mei sources say were aimed at ensuring continued backing for the venture despite strained bilateral ties. These have included a lunch Stevenson hosted for Secretary of State Christopher at the Asia-Pacific Economic Cooperation meeting in Japan in mid-November, and a private meeting on December 1 with Sasser, the ambassador designate to Beijing. Stevenson insists he has “never” discussed Hua Mei with Christopher and says that with Sasser “we mentioned Hua Mei in passing but discussed no issues.”

A massive expansion of the Hua Mei joint venture, involving investment of more than $100 million, will be considered at a board meeting on January 12 in Beijing. Company sources say. If the Chinese soldiers running Galaxy give the thumbs up to the plan, the U.S. partners may be shopping for more high technology to put into Hua Mei.

No public announcements are expected, however. As one Pentagon official notes: “Given that Taiwan and human rights are still looming in the bilateral relationship, this whole thing is being kept dammed quiet.”
SECURITY

Not Over Yet

U.S.-China technology deal raises Congress’s hackles

By Bruce Gilley in Hong Kong

Col. Karl Eikenberry, a China expert on United States Defense Secretary William Perry’s staff, planned to write a report to Congress this year on the advantages of technology cooperation with the Chinese military. A grudging Congress demanded the report last year, in exchange for $50 million to back a bilateral defence-convension commission Perry set up with Beijing in 1994. The funding’s first beneficiary would have been Hua Mei Telecommunications, a joint venture with the Chinese military that was founded by Eikenberry’s onetime doctoral supervisor at Stanford University, John Lewis.

Political controversy now makes the money—and the report—look unlikely, although Hua Mei can proceed with private investment. President Bill Clinton last month vetoed the bill containing the $50 million. And the REVIEW showed last week how the export of advanced telecoms equipment to Hua Mei was approved by the Department of Commerce despite objections raised by the Pentagon and National Security Agency. The approval followed appeals by Lewis to Perry, his former Stanford colleague.

Revelations about the back-room dealings have revived congressional concerns about the defence-convension commission and its objectives. Republican Floyd Spence, chairman of the House National Security Committee, has written to Perry seeking a “prompt” explanation of the Hua Mei project. “Should any of the allegations of the REVIEW prove accurate, they would serve to confirm the specific concerns that led to congressional action to mitigate risks associated with the...commission,” Spence wrote on January 5. Perry is expected to address the controversy soon.

In a further chapter in the high-level relationships that have shaped Hua Mei, Lewis and his son Steve, who are business partners in the California technology firm Generation Ventures, checked into Beijing’s Grand Hotel from January 9 to 13. That was the same time that Hua Mei was holding its annual meeting in the hotel with several senior Chinese military figures. Lewis has insisted he severed all ties with the company and ended other business dealings with the People’s Liberation Army after being made a member of Perry’s Defence Policy Board in August 1994. Hua Mei Co-Chairman Adlai Stevenson III, in Beijing for the meeting, contended he had no knowledge of Lewis’s coincidental presence in the hotel. “It has absolutely nothing to do with us,” he said.

Fears that Hua Mei’s technology could be used by the Chinese military were sharpened by another development: Senior Col. Deng Changru, the former chief of telecoms development for the Chinese military, was made a Hua Mei director at the meeting, a month after taking over as president of Galaxy New Technology, the military-owned Chinese partner in the venture.

“In China, normally there is no difference between civilian and military research,” explains Li Bo, a Galaxy official working in Hua Mei. Pentagon and NSA fears about Hua Mei were based on the potential for the video and data-transmission technologies to be used by the Chinese military to upgrade its battlefield communications systems.

More controversy looms elsewhere. A U.S. government delegation is to arrive in China on January 21 for a week-long tour of air-traffic-control facilities, another area pinpointed by the conversion commission to gain U.S. technology.

Security officials in Washington warned that the potential for the air-traffic-control programme leaking sensitive technology is even greater than in the case of telecommunications, as the Chinese military controls 95% of airspace in the mainland.
After the Fact

Pentagon to probe hi-tech transfer to China

By Bruce Gilley in Hong Kong and Nigel Holloway in Washington

The U.S. Defence Department has decided to take a second look at the transfer of advanced telecommunications equipment to an American joint venture with the Chinese military, amid concerns that the People’s Liberation Army will use the technology to boost its battlefield communications capability.

The Pentagon’s request for an intelligence assessment follows a January 4 Review article that showed how the equipment was sold to Hua Mei Communications, in the southern Chinese province of Guangdong, despite the stated objections of experts at the Pentagon and National Security Agency.

“We have requested the intelligence community to prepare an assessment of whether the transfer of technology to Hua Mei Communications had any significant implications for PLA modernization goals,” a Pentagon spokesman, Maj. Steve Manuel, told the Review on January 19.

The previous day, Defence Secretary William Perry’s spokesman, Kenneth Bacon, had responded with a categoric “no” when asked at a press briefing if the technology would bolster the Chinese military. But from Manuel’s statement, it’s clear that not everyone is convinced.

The intelligence assessment was ordered in response to a January 5 letter to Perry from the chairman of the House National Security Committee, Rep. Floyd Spence, the Pentagon spokesman said. This letter was prompted by the Review’s article on Hua Mei the day before.

Manuel pointed out that the Pentagon hasn’t been required to screen technology exports to civilian companies since 1994, when the United States relaxed its strict controls on technology transfers to communist countries. That allowed Hua Mei to acquire the hi-tech telecoms equipment without facing any Pentagon hurdles. The policy change was fortunate: In 1993, a memo from the Pentagon’s Technology Directorate warned that the equipment, which has potential military applications, should not be sold to the Chinese because of its “strategic impacts.”

A National Security Committee staffer said Spence was still waiting for Perry to
The company isn't bashful about trading on John Lewis's high-level ties, including those to Perry. "Generation Ventures [GV] is a venture firm focused on building businesses in China. The firm leverages Western technology and knowledge to generate substantial returns," the brochure reads, noting that in China, "investment outcomes depend greatly on long-standing, well-placed relationships." It adds: "GV's projects usually require coalition-building on the China side. This usually involves multi-party transactions in which GV's government, military, and industrial ties are fully utilized."

The biographies of the directors in the
with senior generals in the Chinese army, where he worked on the nuclear weapons programme in the 1970s.

The Pentagon denies any conflict of interest on the grounds that Lewis cannot influence policies in favour of his company as a member of the Defence Policy Board. "The board does not review or deal with individual contracts or projects. It looks instead at the larger policy picture," said Manuel. The Pentagon did not comment, however, on whether privileged information obtained by Lewis as a board member could help his company.

Additionally, Lewis is an observer on the Chinese-U.S. Joint Business Commission, which Perry set up in 1994. He was the only private-sector representative at the commission's first meeting in Beijing in October 1995. Again, coincidence or no, Lewis arrived in Beijing for an eight-day stay on January 20 of this year, the exact same period as a high-level U.S. air force and civil aviation delegation was in town under commission auspices to investigate China's air-traffic-control technology needs.

While the Pentagon insists no companies were accompanying the delegation, the Review found Lewis at the Beijing Hotel. Lewis would not comment on why he was in the Chinese capital. His reservation there carried only the Chinese name of Generation Ventures, Meigu Shida. A reservation he had made with the English name of the company at the nearby Grand Hotel was stamped "cancelled" on January 19, hotel records show. A second Review report which appeared on January 11 mentioned the firm by name.

At Stanford, meanwhile, officials are concerned about the apparent use by Lewis of university facilities for his business. Lewis made use of his university office for communications, as shown by a 1993 SCM memo obtained by the Review which carries the address of Lewis's Stanford centre.

The decision to launch an investigation into a possible breach of university regulations barring such activities rests with Stanford Provost Condeleezza Rice, who is another of the 19 members of Perry's Defence Policy Board and a former researcher at Lewis's centre. Explains university spokesman Douglas Foster: "If there is evidence of a pattern of using university resources to further private ventures then it would be more likely that an investigation would be launched."
GAO probe sought of Perry's actions in China deals
Bill Gertz
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Full Text:

Congress' General Accounting Office is being asked to investigate Defense Secretary William J. Perry's dealings with China and the U.S.-China defense conversion commission that he set up.

"I remain concerned with the prospect that the agreements reached through the commission may assist Chinese firms that have direct links to and may, directly or indirectly, advance the modernization goals of the People's Liberation Army," Rep. Floyd D. Spence, chairman of the House National Security Committee, said in a Feb. 23 letter to the GAO.

Mr. Spence, South Carolina Republican, asked GAO to investigate the activities of the U.S.-China Joint Defense Conversion Commission, created in 1994.

A House Republican aide expects the GAO to initiate the investigation soon. The probe was requested after Mr. Perry's answers to questions about the commission and technology transfers to China were deemed unsatisfactory.

Specifically, Mr. Spence asked the GAO to examine the costs and benefits of the commission and to identify activities that could help China's military modernization from technology transfer or financial assistance.

GAO investigators also will look at what steps the Pentagon is taking to safeguard Western technology transferred to China from being used to modernize the Chinese military, Mr. Spence stated.

"I am also interested in the extent to which this program might result in meaningful `defense conversion,' as opposed to simply providing China's defense industrial base with additional, profitable capabilities," he said.

The GAO, Congress' audit arm, must carry out investigations requested by committee chairmen and plans for the probe are under review, a GAO spokeswoman said.

The Chinese side of the commission is headed by Ding Henggao, director of the Commission of Science, Technology and Industry for National Defense (COSTIND), which U.S. intelligence officials have identified as a major international collector of weapons technology for Beijing.

Mr. Spence also asked the GAO to investigate news reports that China obtained valuable military technology from a deal involving a U.S. firm with links to Mr. Perry.

The Far Eastern Economic Review reported Jan. 11 that John Lewis, a California friend of Mr. Perry, solicited and obtained his help in winning Pentagon permission to export advanced fiber optics telecommunications technology to China as part of a joint U.S.-China venture called Hua-Mei Telecommunications.

The system could be used to vastly improve the Chinese military's command, control, communications and intelligence functions, said defense analysts.

Mr. Spence said he is concerned "this technology could be diverted from its stated civilian end-use to military applications." In a third case, the GAO was asked to probe the transfer to China of computer-
driven machine tools made by McDonnell Douglas Corp.

Mr. Spence asked the GAO to examine whether the machine tools, used to make precision cuts in production of the B-1 bomber and C-17 transport were diverted from commercial use to Chinese military aircraft plants.

Pentagon spokesman Ken Bacon denied Mr. Perry used his influence to assist the Hua-Mei Telecommunications venture and called the Far Eastern Economic Review article inaccurate.

The deal did not require an export license because export control laws changed in 1994, he said.

"There was absolutely no effort made by Secretary Perry or anybody else in this building to clear the way for the shipment of this equipment," Mr. Bacon said.

"It was a completely above-board, highly transparent, highly visible transaction that was very much in line with export control regulations at the time."

Commission programs "do not involve any transfer of technology to the Chinese military," he said.

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