



The Peoples Republic of China's Intelligence Apparatus: Implications for Foreign Firms

A Taia Global White Paper written by Matt Brazil
May 16, 2012

Taia Global is a boutique security firm specializing in the protection of critical data at risk for espionage or theft. We specialize in providing due diligence reports on threats to a company's supply chain through their overseas operations or that of their vendors in foreign nation states like China, Russia, Israel, India, France, Brazil, and other high risk locales.

Taia Global's team of engineers, analysts and investigators are in many cases career professionals who've retired from the U.S. Intelligence Community and its counterparts overseas. The company is built as a distributed collective of exceptionally skilled contract talent which allows us to provide an efficient and cost-effective rapid-response capability to our elite corporate clients. For more information on what we can do for your company, please contact us at 855-777-TAIA (8242) or by email: services@taiaglobal.com



The Peoples Republic of China's Intelligence Apparatus: Implications for Foreign Firms Operating in China

Matt Brazil¹

Summary:²

The PRC has three main intelligence services. They all monitor non-Chinese firms with offices and factories in China. These services have some overlapping responsibilities and compete for money and mission scope in a time when the country's leaders perceive a growing need for their services due to the growing international role of the country. Their activities have roots in the revolutionary period before 1949 and even in ancient times, but there are new aspects to the behavior of the Chinese services which reflect China's development as a more assertive international actor.

Altogether, the situation is increasingly troublesome for non-Chinese businesses with intellectual property (IP) to protect not just in China, but on their own soil: any business with IP needed by the Chinese state or even a state owned enterprise (SOE) may be targeted by not just one, but multiple Chinese intelligence services and even PRC end-users themselves: the civilian and military intelligence agencies, military companies, civilian SOEs, private Chinese firms, and academic entities. Since they are independent of each other, they are unlikely to coordinate their meddling and thievery (though there is some predictability; intelligence agencies will target bigger ticket items—e.g.: submarine systems—compared to commercial items chased by smaller actors).³ Moreover, a business does not need to be *located* in the PRC to fall victim to clandestine Chinese technology acquisition or other snooping. Everyone expects hacking from afar, but this problem includes good old fashioned spying outside of China, sometimes by a classic sleeper agent like Chi Mak, discussed below, or by a PRC-owned or invested firm that spots, assesses, develops, and recruits an agent inside your firm.

Some of the activities of the Chinese services are based on longstanding assumptions about dealing with foreigners predating the 1949 founding of the PRC. Their efforts seem to be

¹ Matt Brazil is one of Taia Global's China security consultants and a former commercial officer at the U.S. embassy in Beijing.

² Thanks to Peter Mattis of the Jamestown Foundation, Washington, DC for his thoughtful comments on the draft for this paper.

³ Other actors like Chinese Customs and the PRC's industrial ministries can also get in on the act. For a detailed contemporary look at Chinese technology acquisition activities in the US, see the thesis by Amy Brown of Georgetown University, "Directed or Diffuse? Chinese Intelligence Targeting of US Defense Technology," at (<http://repository.library.georgetown.edu/handle/10822/553457>) as well the two articles for The Diplomat by Peter Mattis, "China's Amateur Spying Problem" and "China's Misunderstood Spies": <http://the-diplomat.com/2011/12/11/china%E2%80%99s-amateur-spying-problem/>

growing more intense as PRC decision makers perceive increasing national power and become insistent upon settling disputes on Chinese terms—a trend that will not reverse in the foreseeable future. End summary.

Who's Who

China's three main intelligence services are the Ministry of State Security (MSS), the primary foreign intelligence organization, which runs foreign intelligence but also has an extensive domestic mission; the Ministry of Public Security (MPS), China's national police agency, which owns⁴ every police station in the PRC; and the People's Liberation Army (PLA) 2d and 3d Departments, handling military intelligence and signals intelligence, respectively.⁵ Why are they rivals? This is a complicated topic, but simply put, 1) each has some overlapping jurisdiction, with MSS and MPS both concerned with internal dissents and elements of foreign influence in China, and the military involved in surveillance of the same foreign entities including businesses that concern MSS and MPS. 2) The Chinese state's bureaucratic structure is driven by a one-party system characterized by factional disputes, and the pursuit of "social stability" and other policy goals comes before the observance of law. These two factors can make the actions of China's powerful security organs seem unpredictable and arbitrary as they vie for dominance—more so than one would observe in the competitive interaction of the US CIA, FBI and the Department of Defense (DOD). We will elaborate below. This is important to foreign businesses with assets in China: while crimes like petty theft, assault, and murder are low compared to the US, China's business environment is actually much more unpredictable and risky partly because of the behavior of its authorities.

Why CCP Policy and Factional Politics Trump the Law

The political influence of a Chinese agency can be tied to three main factors: merit (how good are they, really?), necessity (why are their services needed?) and the political power of the organization's elite leadership.⁶ The first two factors are important almost anywhere, but the third is accentuated in China because of the nature of the CCP's opaque and struggle-oriented

⁴ Without going into too much detail, MPS and MSS local stations are also supervised by local CCP Committees, a situation akin to a US city mayor having a strong hand in the administration of the local FBI Field Office. Peter Mattis provides two good tables showing MSS organization in his 2011 Georgetown University MA thesis, "Chinese Intelligence Operations Reconsidered," at <http://catalog.library.georgetown.edu/search~S4/?amattis/amattis/1%2C31%2C49%2CB/frameset&FF=amattis+peter+l&1%2C1%2C>

⁵ The PLA 2d Department may be affiliated with the Commission on Science and Technology in the National Defense, and Chinese firms like Xinxing and Polytechnologies which regularly seek US controlled technology. The 3d Department conducts intercept for foreign communications. Beyond these agencies there are other, smaller entities like the CCP International Liaison Department which are less relevant to foreign businesses in China which will remain out of scope for this report.

⁶ This hypothesis is argued by Peter Mattis in "Assessing the Foreign Policy Influence of the Ministry of State Security," in China Brief, Vol XI, Issue 1, January 14, 2011

politics. Another complicated topic simply put: the elite leaders of intelligence organizations (or other sorts of official organs) can achieve advantage over each other partly based on their factional affiliations, Party rank, and membership in the CCP Central Committee and Politburo. China's one party system is run by a highly secretive, conspiratorial, former revolutionary organization where factions are the main outlet for political and personal disputes. This intensifies factional struggle and stimulates corruption in a system where official salaries are low and the law does not actually regulate officials, but rather is used by them enhance government power in ways of their choosing.

Some counter that the law matters now more than in the past. Nicholas Bequelin of Human Rights Watch argued in a recent New York Times essay that “the fact is that the rule of law has become a central demand of the Chinese citizenry, and grievances are increasingly framed in the language of rights. The law matters.”⁷ Official observance of Chinese law has certainly improved since Mao's and Deng's time. However, the law remains much less important than policy: according to a recent study by the London School of Economics, officials are graded for performance based on other targets: maintaining “social stability,” achieving economic growth, and in some places enforcing population controls are the top three priorities. Adherence to the law counts for ten percent or less in a cadre's performance appraisal.⁸ Moreover, the judiciary remains subordinate to local Party committees, without even the pretense of independence (this is not an improving situation: new Chinese lawyers and those applying for license renewal must now swear an oath of loyalty to the CCP).⁹ If an official violates laws in the course of government administration, this will likely be excused by higher-ups unless the incident causes embarrassment. That is where the Chinese citizenry comes into the picture: officials who are so blatantly unlawful and brutal that their misconduct triggers mass dissent are usually sacked—but for triggering social instability, not violating the law. This supports the idea that keeping society stable is the real bottom line on cadre performance, as was seen in the December 2011 Wukan

⁷ Nicholas Bequelin, “Does the Law Matter in China?” in The New York Times, 14 May 2012. http://www.nytimes.com/2012/05/14/opinion/Does-the-law-matter-in-China.html?_r=1&emc=tnt&tntemail1=y

⁸ “The emperor does know,” in The Economist, 12 May 2012, p. 51. This article cites research by Dr. Mayling Birney of the London School of Economics, which apparently is forthcoming. See <http://www2.lse.ac.uk/internationalDevelopment/whosWho/birneym.aspx>

⁹ Edward Wong, “Chinese Lawyers Chafe at New Oath to Communist Party” in NY Times, 22 March 2012. The oath reads in part that “I swear my loyalty to the motherland, to the people, to uphold the leadership of the Communist Party of China and the socialist system, and to protect the dignity of the Constitution and laws.”

Incident.¹⁰ In sum, law serves that bottom line and Party policies—it does not put a genuine brake on them, nor serve as any check and balance on practices like arbitrary detention¹¹ or even the threat of being secretly buried alive by security forces for peacefully opposing the government.¹² Finally, since the Party’s Propaganda Department controls the Chinese press, there is no neutral party acting as a watchdog on government power.

¹⁰ The famous standoff in the southern Chinese village of Wukan occurred in November–December 2011. Wukan is 65 miles NE of Hong Kong. The conflict there was both familiar and unique. Over a hundred thousand such protests against land grabs by corrupt local officials are reported every year. However Wukan was more serious than other recent struggles: it lasted longer (over 30 days), involved 20,000 people instead of just a few hundred, received nationwide attention, and caused residents to heretically if briefly replace the local CCP committee and form their own village government. When the central government surrounded the area with People’s Armed Police troops, a national level force, they came closer to an assault on a civilian town than at any time since the end of the Cultural Revolution, when a rebelling town in China’s southwest was surrounded and then razed by the army in July 1975, resulting in 1,600 deaths. The 1989 Tiananmen massacre also offers an example of military forces attacking civilians to quell a “rebellion,” with an estimated 2,600 deaths. See Willy Wo-lap Lam, “The Grim Future of the Wukan Model for Handling Dissent,” in China Brief, 6 Jan 2012, www.jamestown.org ; Michael Wines, “Revolt Begins Like Others, But Its End is Less Certain”, New York Times, 16 Dec 2011, <http://www.nytimes.com/2011/12/17/world/asia/wukan-revolt-takes-on-a-life-of-its-own.html?src=recg&pagewanted=print> ; Stratfor, 15 Dec 2011, “Dispatch: Implications of China’s Wukan Protests,” <http://www.youtube.com/watch?v=IVpZumNEqmE> . On the 1975 Shadian Incident, see MacFarquhar and Schoenhals, Mao’s Last Revolution (Harvard University Press, 2006), pp. 387–388; see also the video at <http://www.ft.com/cms/s/0/6f975d8e-2983-11e1-a066-00144feabdc0.html?ftcamp=rss#axzz1gvxbfcfl>. The estimate of 2,600 deaths in Beijing on the night of 3–4 June 1989 comes from a compilation of US embassy Beijing and Chinese Red Cross estimates. See Nan Lin, Tiananmen: Anatomy of the 1989 Movement (Westport, CT: Praeger Publishers, 1992, pp. 171–172.

¹¹ Arbitrary detention by CCP officials originated in the early revolutionary period. Even though the original 1930 army regulations allowing local commanders to detain anyone for almost any reason have been modified, in practice arbitrary detention is still allowed. Flora Sapio, “Shuanggui and Extralegal Detention in China” (China Information, 22:8, 2007, online at <http://cin.sagepub.com/content/22/1/7>), pp. 3 and 22.

¹² Both Nationalist and Communist forces buried enemies alive during the revolution to frighten opponents. One of several known examples is cited in Raymond de Jaeger, *The Enemy Within* (New York: Doubleday, 1953), p. 177. More recently, a Chinese dissident claimed that he was told by State Security that “If the order comes from above, we can dig a pit to bury you alive in half an hour and no one on Earth would know... As far as we, state security, can tell, there are no more than 200 intellectuals in the country who oppose the Communist Party and are influential. If the central authorities think that their rule is facing a crisis, they can capture them all in one night and bury them alive.” See Josh Chin, “After Beijing Lets Dissident Leave, He Spurs an Internet Catchphrase” in *Wall Street Journal*, 20 January 2012. <http://online.wsj.com/article/SB10001424052970204301404577170743814443180.html>

The Chinese Communist Party's "struggle culture"¹³ has typically sought scapegoats whenever things go wrong, and victimizes those without a dominant political patron. In the world of CCP intelligence and security, this means that inevitable setbacks involving defections, waste, and fraud have an amplified effect. For example, when the mid-level PRC intelligence official Yu Zhensan fled to the US in 1985, it provoked the firing of the first MSS Minister, a career counterintelligence official without high level connections, and his replacement by a political figure tied to Deng Xiaoping, then maneuvering for dominance in the elite leadership. The most recent replacement of the MSS minister may also have resulted from a scandal.¹⁴ Such "solutions" may be less effective in solving the root causes of problems like a defection than providing an opportunity for one political faction to gain advantage. For target Western businesses on Chinese soil, this opaque sort of political process makes it hard to understand unexplained incidents like shipment seizures, license renewal delays, illogical regulatory application, or an arbitrary arrest or detention of an employee.¹⁵ It is common in such incidences that your local Chinese employees will understand what is going on, but be unable to explain to you the real implications for your business, from fear of being charged later with revealing state secrets. This goes double for any local people you might hire as security management in China: Not only will they likely be closely connected to former MPS or MSS colleagues and sensitive to what should be kept "internal" and away from foreigners, but as a member of SPAC, the Security Professionals' Association of China, s/he will have taken a loyalty oath to the CCP similar to the one described above.¹⁶

Arbitrary Detention and Actions Against Foreigners

Of greater concern for US, Japanese, British, French, Australian, German, Russian, Taiwanese, and South Korean businesses is the way history regularly puts them at a disadvantage because of the role of their home governments in either the Cold War (1947-1989) or the "Century of Humiliation" (1842-1949: see Appendix 1). The former is the post-WWII period of East-West

¹³ Stuart R. Schram catalogues Mao's development of struggle to achieve CCP policy objectives in his early work *The Political Thought of Mao Tse-tung* (New York: Praeger, 1962), pp. 33, 36, 48, and 111. In 1983-84, Deng Xiaoping declared that the Party would no longer pursue struggle campaigns to achieve political ends, but to this day the police use "strike hard" (yanda, also translated as "crack down") campaigns whenever Party officials determine that a crime problem requires concentrated enforcement. The author is working with Professor Frederick Teiwes of Sydney University to define how the CCP's "struggle culture" has affected Chinese communist intelligence work.

¹⁴ Peter Mattis, op. cit.

¹⁵ Chinese officials have at times privately told the author that such actions have resulted when the Chinese side wishes to express displeasure with the US government, or when they are directed to crack down on some activity like smuggling, prostitution, or illegal currency exchange. A line the author has heard more than once: "This has nothing to do with X company" followed by a complaint about US government policies.

¹⁶ The author attended the founding meeting of SPAC in 2009, where the loyalty oath was discussed. He noted that foreign members might find taking that oath to be inconvenient; after discussion, foreign SPAC members were exempted.

rivalry, while the latter was when China became a semi-colony at the hands of some of the major powers of the time (1842-1949). Chinese students learn about the Century of Humiliation and the adversarial role of the US during the Cold War all the way from primary school to university. This legacy makes compromise with US, British, Japanese, and other businesses difficult for any Chinese Party official during a period of heightened bilateral tension. In the most recent period of US-China disputes (minor ones in 2004 and a worsening situation in 2008-10) several of these arbitrary detentions were publicly revealed. All were US citizens: Chinese-American academic Fei-ling Wang and US businessman David Dong in 2004, Xie Chunren in 2009, and the geologist Xue Feng in 2010.¹⁷ A dispute with Australia led also to an arrest that seemed as relevant to bilateral relations as it did to an actual allegation.¹⁸ The pattern here is obvious: when an ethnic Chinese person lives in China on a foreign passport, whatever protection that country's citizenship may provide a non-Chinese seems to quickly erode if bilateral relations decline. Beyond that, Chinese authorities may simply be suspicious of ethnic an Chinese returning to the motherland holding permanent foreign residence or a foreign passport: their loyalty may be as suspect as an American returning with a Russian passport.

More serious still is what could eventually develop if Chinese relations with the US or other foreign countries take a significant dive. Even before the revolution, Chinese officials reacted to tense periods by harassing foreign people and businesses, including taking hostages. This practice began in ancient times and was formalized in China and Japan during periods of civil strife, as competing domestic powers with a truce agreement would send hostages to each other to ensure mutual peaceful conduct. The table and explanation in Appendix 2 provides details showing hostage taking and other problems.

How Chinese Agencies and Competitors Intrude Into Your Business in China and at Home

China does not seem like a police state to most foreign visitors. When we foreigners visit, we see booming businesses and lots of newspapers on sale including the International Herald Tribune with its critical NY Times articles on China. We walk the streets and see Japanese restaurants, Western coffee shops and American fast food. It is not North Korea. However this picture presented to foreign visitors has pragmatically evolved over the decades since the awkward choreography of the 1972 Nixon visit. Intelligence and security surveillance of foreigners, and of their business operations in China, is more subtle and sophisticated now compared to previous times. The Chinese services use their own citizens to accomplish a lot it, relying on their discretion in keeping some rather open secrets amongst themselves, such as which Chinese officials are likely to be on the fast track for promotion, or the real affiliation of a particular Chinese enterprise or institute. Moreover, many Chinese who work or study abroad,

¹⁷ <http://www.smh.com.au/articles/2004/08/12/1092102600231.html?from=moreStories> ; http://www.cbsnews.com/2100-202_162-788516.html ; <http://www.heraldsun.com.au/news/breaking-news/china-jails-us-geologist-xue-feng-over-oil-industry-database/story-e6frf7k6-1225888183282>

¹⁸ <http://articles.latimes.com/2009/jul/17/business/fi-china-riotinto17>

those who work for foreign businesses, and those who come back to China from overseas to visit family are routinely contacted by the MSS for information. Not everyone—just lots of them.¹⁹

This is much different from the revolutionary period, Mao's China after that, and the early period of Deng Xiaoping's rule, when surveillance against the much smaller number of foreigners in China was more pervasive. In the 1980s and in the two years after the Tiananmen Massacre of June Fourth 1989, Chinese employees of foreign enterprises in China were almost all required to report their activities on Saturday mornings to MSS run organs. Then that reporting was scaled back in two phases. First it was consolidated through a designated representative in each foreign business unit in the early 1990s. Sometime later that decade, MSS apparently decided to lower the number of people providing information and focus human intelligence collection in ways that would require further study to describe—probably because advances in security technology made possible enhanced audio, video, and electronic coverage of foreign business activity. Nowadays most, perhaps every, foreign business in China has a CCP cell focused on overt organizational and propaganda work, which also provides a relatively safe recruiting ground for MSS to pick and choose the assets they need who possess the right access to meet collection requirements.²⁰ MSS and the other services make mistakes and have been known to inadvertently reveal themselves as they set up surveillance, but they usually stay out of sight.²¹

In the West, economic and military technology theft cases implicating Chinese agents have regularly shown up in the news since the late 1980s.²² An early case (1993) involved Bin Wu, who set up a US firm and bought night vision technology which would have not have been approved for export to China under US law. So he sent his equipment first to Hong Kong, and then transshipped it to PRC military customers. This method used by Bin Wu—making domestic purchases in the US and mis-manifesting them for shipment on to China—actually began in the 1980s with thousands of small PRC companies setting up in the US, where market access for Chinese firms was easy. A second dominant method of technology theft involves

¹⁹ F.W. Rustmann, *CIA Inc: Espionage and the Craft of Business Intelligence* (Dulles, VA: Brassey's Inc, 2002), p. 117.

²⁰ Author's interviews.

²¹ *Ibid.*

²² James Mann and Ronald Ostrow, "US Ousts Two Chinese Envoys for Espionage," *Los Angeles Times*, 31 December 1987 http://articles.latimes.com/1987-12-31/news/mn-7581_1 ; William Overend, "China Seen Using Close US Ties for Espionage: California Activity Includes Theft of Technology and Surpasses That of Soviets, Experts Believe," *Los Angeles Times*, 20 November 1988 http://articles.latimes.com/1988-11-20/news/mn-463_1_chinese-espionage

former employees who join a Western firm and then depart with critical technology. Examples of both sorts of cases in the US and other countries are numerous and may be easily found.²³

The Period of a More Assertive China Has Begun

“Objective conditions,” as Mao liked to call them, of pure power politics weigh heavily on CCP decisions regarding security—not a particularly Chinese or communist problem, but one that affects how China gets along with other countries and their firms with operations there.

Beginning after the 1972 Nixon visit, and continuing into the time when Deng Xiaoping was China’s paramount leader (1979-1997) the PRC put cooperative relations with the US ahead of other priorities. In Deng’s words, China was to “lay low” (not irritate the Americans) and build up the nation’s strength, focusing on modernization and economic development. Deng’s successor Jiang Zemin also followed this idea: though PRC policy always stressed a hard line with the US over the status of Taiwan, Chinese decision makers tended toward compromise with the US on a range of issues including access to the PRC market and protection of US businesses on Chinese soil. Just above, we reviewed some of the arbitrary arrests of US and Australian business people during periods of heightened bilateral tension. Most recently, Chinese insistence on settling disputes on their own terms is seen in the aggressive PLA Navy maneuvers in the South China Sea over territorial disputes with the Philippines, Vietnam, and Malaysia. This reflects an erosion of the previously strong consensus in China to avoid conflict with the US.

How Should Non-Chinese Businesses Respond?

Many people in China believe their nation is an equal in many ways, or near so, to the US—an unprecedented situation in modern times. Advances in PRC space technology, aeronautics, cryptology, and telecommunications may eventually prompt authorities there to conclude that the days in which China will need foreign technology may be numbered if (a big if) PRC research and development also catch up. We are not there yet, but as Chinese national confidence rises, some foreign businesses in the PRC can expect increasingly assertive Chinese government responses to issues in trade relations and more aggressive efforts in the foreseeable future to

²³ One of the most important cases was against the Chi Mak ring of four persons who stole US Navy ship and weaponry designs for transfer to the PLA Navy. This case is described in detail in Edward M. Roche, Snake Fish, The Chi Mak Spy Ring (New York: Barraclough Ltd, 2008). Examples may also be found in Rustmann, op. cit., pp. 114 and 118, and on line. See also <http://www.nytimes.com/2012/02/15/world/asia/chinese-official-to-hear-trade-theft-tale.html> http://www.huffingtonpost.com/2011/09/23/timothy-geithner-china-very-aggressive-stealing-technology_n_977509.html . <http://www.popularmechanics.com/technology/military/news/3319656> ; <http://www.bbc.co.uk/news/12382747> . http://articles.boston.com/2011-09-19/news/30176716_1_alternative-energy-china-ties-data-theft-case ; In the Han Juanjin case, an attempt was made to steal US\$1b in IP from Motorola. Jamil Anderlini, “Motorola Claims Espionage in Huawei Lawsuit,” Financial Times, 22 July 2010 http://www.ft.com/cms/s/0/616d2b34-953d-11df-b2e1-00144feab49a,dwp_uuid=9c33700c-4c86-11da-89df-0000779e2340.html

recruit employees and steal technology. All businesses should reconsider what people and assets they have exposed in the PRC (including technical aspects like connectivity to home servers), the security of IP, security practices *actually followed* by business travelers to the PRC, and whether the level of resources devoted to background checks would meet a “sanity test” by your stockholders after a security incident.

Appendix 1 What was the “Century of Humiliation”?

To understand why it is often difficult for foreign businesses, and governments, to get along with the Chinese government, it is necessary to quickly review the nature of China’s relations with other countries. In sum:

- Unequal tributary relations from China’s traditional dynastic past, with China in a typically superior position, especially under the Ming (1368-1644) and Qing (1644-1911);²⁴
- Followed by the “Century of Humiliation” (1842-1949, in Chinese, *Bainian guochi*) with China in a subordinate position, at times virtually helpless against foreign encroachment;
 - o Including the chaos of extreme foreign influence in China during the Republican Period (1912-1949)
- Followed by the post-1949 Liberation, with newly asserted independence and varied degrees of isolation under the anti-Western leadership of Mao Zedong;
- Which led to the post-Mao (1976-present) period of ascending national wealth and power but with declining political strength at the center;
- And now, rapidly growing contradictions with the US over old but vital issues: US status quo international politics versus China’s position as a challenger, human rights, and the status of Taiwan and Tibet.

There is a sharp contrast between the Republican Period (1912-1949) of extreme foreign influence, versus the state of relations with foreigners during the dynasties before, and afterward during the early People’s Republic. During the dynasties in earlier periods, popular and elite thought placed China at the center of the world, with all other states subordinate. After 1912 and before the founding of the PRC in 1949—by far the worst part of the “Century of Humiliation”—the opposite extreme reigned as outside influence exploded into China. Foreign political models were tried and retried; foreign loans were controversially accepted in large amounts; unequal treaties from the last dynasty remained not only in force but increasingly without challenge from the Chinese side; the major Chinese parties including the CCP were formed under significant Russian influence; and in 1931 and 1937 there began, in stages, the Japanese invasion which dominated the nation’s affairs until 1945. After that the Russians and the US were heavily engaged, with troops on the ground and present in several major seaports, until the end of the civil war in 1949.²⁵

²⁴ Dennis Twitchett and Frederick W. Mote, *The Cambridge History of China*, v. 8, *The Ming Dynasty, 1368–1644, Part 2* (Cambridge University Press, 1998), pp. 304–305.

²⁵ John K. Fairbank, *The Cambridge History of China*, V. 12, *Republican China, 1912–1949*, part 1, pp. 1–2.

Foreigners and Firms Resident in China. Sources and measurement methods vary; some information not available				
Year	Number of Foreigners Resident in China	Number of Firms	First Most Prominent Nationality	Other Prominent Nationalities, in Order
1879	3,814	351	UK	US; German
1903	20,404			
1911	153,522	2,863		
1913	113,827	3,805		
1916	185,613	4,724		
1918	244,527	6,930		
	240,769	9,511		
1921				
1928	325,000	6,473	Japanese	Russian, UK, US, Portuguese
1936	370,393			
1950s	12,600	N/A (11,000 technicians and 1,600 students)	Soviet	N/A
1987	52,000			
2004	468,200			
2007	539,892	144,284	Japanese	Korean, Russian, US
2008		171,798		
2009	493,139	195,233	Japanese	Korean, Russian, US, Malaysian
2010	Not yet available	222,639	Japanese	Korean, Russian, US, Malaysian

Appendix 2: Retaliation Against Foreigners in China Since 1949

Action	Description	Duration	Possible Precedent
Expulsion	Mass expulsion of foreigners, 1949-51	Foreigners gradually returned after 1976	Ming Dynasty policy
Expulsion	Expulsion of teachers from selected institutions thought close to the US government	1989-1993	The 1949-51 policy, and Ming Dynasty policy
Hostage taking	American Consulate Shenyang, “Angus Ward case”, entire consular staff held after CCP forces enter the city	Nov 1948-Nov 1949	Early and later dynastic history
Hostage taking	US bank employees held pending resolution of claims against their institutions, at start of Korean War	December 1950-various	Angus Ward case and other earlier precedents
Embargo on transfer of US owned assets and property	After the US froze PRC assets in mid-December 1950, China did the same on 28 December	28 Dec 1950	US action; seizure of assets of Central Powers during WWI.
Hostage taking	Widespread arrests of foreigners in China as the CCP pursued the Korean War and faced Western embargoes	Throughout the 1950s	Early and later dynastic history
Hostage taking	Reuter’s correspondent Anthony Grey in Beijing held to force release of eight arrested Chinese journalists in HK. They were released but Grey was held until a convenient political moment for domestic politics, after the 9 th CCP Congress	July 1967-October 1969	Korean War practice, above
Violent assaults on foreign interests and symbols	Against Western Embassies in 1966-68; against US diplomatic housing in 1989; against US diplomatic missions in 1999; repeatedly in 2004-2009 against Japanese diplomatic missions, restaurants, and cultural symbols	As at left	Cultural Revolution; anti-Japanese strikes during mass movements in the pre-1949 revolutionary period

Detaining and Expelling Foreigners: A Quick Review of Chinese History

Any bad situation can lead to evacuation of your foreign employees, or the loss of them as hostages. However the problem faced by foreign companies in China is that the Chinese government appears to consider expelling or seizing foreigners on its soil to be a normal

escalation during periods of high tension. China has followed a long tradition expelling foreigners when their presence caused a perceived threat. All foreigners in China were ejected in 1522 after a Portuguese mission used force to settle a dispute.^{Mark} As part of an internal political battle, the Minister of Rites approved the expulsion of all Jesuits in China in 1617, and the imprisonment and torture of their Chinese followers, even though the foreign religious order had studiously ingratiated itself to many officials in the emperor's court itself—and was focused on bringing Western technology to China.^{Mark}

Just before the establishment of the PRC, the CCP held the staff of the US Consulate, Shenyang hostage for a year, from November 1948 to November 1949, accusing them of spying because they were engaged in the usual sort of reporting about events in their consular district in northeast China, then being conquered by the Red Army.^{Mark} Just after their 1949 victory the CCP expelled almost all foreigners, a situation aggravated by the Korean War (1950-53). Those allowed to stay were friends of the communist movement. In 1989 after the Tiananmen Massacre, teachers affiliated with the Fulbright program and the US Peace Corps were expelled, and unaffiliated teachers remaining in China were told that they would be carefully watched. The situation was gradually reversed after 1992.

The two most serious recent downturns were in 1989 and 1999, and provide a preview of what hazards might again plague foreigners living in China. During and just after the June Fourth 1989 Tiananmen Massacre:

- The violent response by the government against mass demonstrations included a military attack on a diplomatic compound that almost killed an apartment full of American dependents;
- US businesses evacuated their expats, and required those who insisted on staying sign legal waivers;
- The CCP leadership proclaimed that the US and Taiwan encouraged demonstrators who intended to overthrow the CCP, and they maintain this position even today;
- US-China relations were set back for years, and were permanently altered by an undercurrent of cold war adversity.

During the downturn of 1999 the fallout was swifter but shorter. These events followed the 8 May US bombing of the Chinese embassy Belgrade:

- Senior leader Hu Jintao addressed the nation and said the government supported the Chinese people in expressing their anger against the US;²⁶

²⁶ See the narratives under 9 May 1999 at http://www.cass.net.cn/zhuanti/y_party/yd/yd_m/yd_m_005.htm and <http://www.zgdsw.org.cn/GB/218994/219016/220642/14737882.html> See also http://articles.cnn.com/1999-05-09/world/9905_09_china.protest.03_1_federal-directorate-nato-bombing-supply-and-procurement?_s=PM:WORLD

- The government bussed university students to US diplomatic missions for demonstrations;²⁷
- The US Embassy Beijing grounds and exterior were trashed, while crowds set fire to the residence of the US Consul General in Chengdu;
- Some foreigners who dared show themselves on the street were targeted by raucous crowds;
- US citizens were forced to keep low profile;
- The official Chinese press accused the US of deliberately bombing their embassy in Belgrade.²⁸

²⁷ US diplomatic posts were assaulted and firebombed, with the expressed endorsement of CCP General Secretary and Jiang Zemin, who ordered Beijing universities to bus students to the US embassy to make certain that their energies were channeled against the US, and did not overflow into Tiananmen Square during the time when the tenth anniversary of the 1989 demonstrations was at hand. Susan L. Shirk, *China, Fragile Superpower* (Oxford University Press, 2007), pp. 212–217

²⁸ Peter Hays Gries, “Tears of Rage: Chinese Nationalist Reactions to the Belgrade Embassy Bombing,” in *The China Journal* (Canberra, Australia: Contemporary China Center, Australian National University) (46): pp. 25–43