

# The Political Forum

*A review of social and political trends and events  
impacting the world's financial markets*

Mark L. Melcher  
Publisher  
[melcher@thepoliticalforum.com](mailto:melcher@thepoliticalforum.com)

Stephen R. Soukup  
Senior Editor  
[soukup@thepoliticalforum.com](mailto:soukup@thepoliticalforum.com)

Friday, April 28, 2006

## **A REPRINT FROM A PIECE PUBLISHED FEBRUARY 26, 1997**

### **East Is East, And West Is West – Have The Twain Been Meeting Too Often?**

**Mark L. Melcher**

Last week, I speculated that renewal of most favored nation status (MFN) for China might not be such a sure a thing this time around. The reason, I said, was that upcoming House and Senate hearings into campaign financing irregularities could uncover some very damaging information about Chinese activities in the United States, which could lend considerable new support to those who oppose MFN because of China's lousy human rights record.

I said in that piece that I would elaborate in a subsequent article on the kind of information that some sources in Washington feel might be revealed in these hearings. This seemed like a good idea at the time, since there had been very little in the press on the subject, and I had accumulated some interesting information from what I would call non-mainstream sources.

Since then, however, the mainstream media has been awash in stories on the subject. Even the *Washington Post*, which does its best to ignore stories that might embarrass the Clintons, led its Thursday edition last week with a piece by Bob Woodward, of Watergate fame, and Brian Duffy, which began as follows:

A Justice Department investigation into improper political fund raising activities has uncovered evidence that representatives of the People's Republic of China sought to direct contributions from foreign sources to the Democratic National Committee before the 1996 presidential campaign, officials familiar with the inquiry said.

Sensitive intelligence information shows that the Chinese Embassy on Connecticut Avenue, NW here was used for planning contributions to the DNC, the sources said. Some information was obtained through electronic eavesdropping conducted by federal agencies.

The information gives the Justice Department inquiry what is know as a foreign counterintelligence component, elevating the seriousness of the fundraising controversy, according to some officials.

---

Subscriptions to The Political Forum are available by contacting:  
The Political Forum

8563 Senedo Rd., Mt. Jackson, Virginia 22842  
Tel 540-477-9762, Fax 540-477-3359, Email [melcher@thepoliticalforum.com](mailto:melcher@thepoliticalforum.com),  
or visit us at [www.thepoliticalforum.com](http://www.thepoliticalforum.com)

At about the same time, the March issue of the *American Spectator* hit the stands with a long, comprehensive story by Kenneth B. Timmerman that provides details of the extensive connections between administration officials and a cast of shady characters associated with the Chinese government.

The piece, which is entitled "All Roads Lead To China" is fascinating, frightening, and sickening, not simply because of what it reveals about possible Chinese government influence at the highest levels of the Clinton administration, but because of the insights it provides into the kind of world in which American business and American government operate today.

This is a long article and I could not possibly do it justice with a few quotes here. But as a teaser, I offer the following.

On February 6, 1996, Clinton met with Wang Jun, chairman of the Poly Technologies group, the Chinese army's top arms exporting front company. A prominent member of China's legendarily corrupt *taizi* faction, Wang has brokered, through his various enterprises, some of China's largest foreign arms sales. In 1988, for example, Wang's company organized the \$1 billion sale of nuclear intercontinental ballistic missiles to Saudi Arabia.

The Wang-Clinton meeting occurred at one of the fund-raisers which the White House is finding increasingly difficult to explain. It's finding it even more difficult to explain why Wang met with Ron Brown at the Commerce Department before heading over to the White House. Wang's appearance at either place should have raised eyebrows at the very least. Officials from his Poly Technologies firm had met with American arms dealers in July 1995, and explained that Poly was involved in a scheme to import AK-47 assault rifles into the United States. These weapons were to be sold to Los Angeles street gangs. To entice the Americans, the Poly official said that the Chinese government "had full knowledge of this deal," and even that it was "assisting in the paperwork." One of the American arms dealers negotiating with Poly turned out to be an undercover U.S. Customs agent . . . Court documents reveal that Poly had hoped to expand their business even further: they were planning to move beyond assault rifles to Chinese made hand grenades, mortars, RPG-7 anti-tank rockets, and hand-held anti-aircraft missiles (Chinese copies of the Stinger), capable of knocking commercial airliners out of the sky.

The White House says, of course, that it did not know who Wang was at the time Clinton met with him. This strikes almost everyone who has ever worked for a big shot politician in Washington as odd, given the extensive briefings these guys receive before virtually every meeting they attend. In addition, it also seems strange that Charlie Yan Lie Trie, who arranged the Clinton-Wang meeting, would not have briefed his friend Bill beforehand on what a heck of guy his friend Wang was.

According to the *Washington Post*, Trie has now left the country, along with another controversial character in the unfolding drama, Thai businesswoman Pauline Kanchanalak. A

\$253,300 contribution she made to DNC was later returned, as was Trie's \$640,000 contribution to the Clinton defense fund. At the time the big Trie contribution was made public, Mrs. Clinton said she didn't know who he was. Bill said he knew him as the guy who ran a Chinese restaurant in Little Rock. Here's what the *American Spectator* says about him.

In October 1994, along with a Chinese developer as partner, Trie founded San Kin Yip International Trading (SKY). In a most unusual matchup of goods and services, SKY imports Chinese textiles and exports American machine-tools and advanced technology. Why should a company be trading both hi-tech hardware and low-tech rugs and clothing? As it happens, the Chinese military operates dozens of prison-labor textile mills--and because it is against U.S. law to import prison-labor goods, the Chinese need front companies like SKY to move the merchandise through Customs. Likewise, because of the Tiananmen sanctions (that [Ira] Magaziner and Co. want to abolish), China cannot purchase much sensitive technology directly--and thus needs American agents to broker the deals. Enter companies like Charlie Trie's SKY Trading.

If the idea that the Chinese government might have had extensive pipelines into the Clinton administration sounds far fetched, I would recommend perusing a 1994 book entitled *Chinese Intelligence Operations*. This book, published by the Annapolis based Naval Institute Press, was written by Nicholas Eftimiades, a specialist in East Asian studies at the Defense Intelligence Agency and former employee of both the CIA and State Department.

Space does not permit a comprehensive review of Eftimiades' portrayal of China's extensive intelligence operations in the United States. But it is worth noting that he quotes the chief of the FBI counterintelligence operations in Los Angeles as saying that "if we are talking about violations of U.S. law, the Chinese are surpassing the Russians."

Chinese espionage activities are run by several agencies. The largest is the Guojia Anquan Bu, or Ministry of State Security (MSS). This agency was formed in June 1983 by combining the espionage, counterintelligence, and security functions of the Ministry of Public Security and the Investigations Department of the Chinese Communist party central committee. MSS has been run since 1985 by Jia Chunwang, a 59-year-old native of Beijing and a "fan of the CIA." The second largest agency is aptly named the Second Department, or the Er Bu, which is run by China's military. Its chief is Major General Xiong Guangkai, a veteran intelligence agent in his mid 50s.

China's intelligence activities are, of course, primarily aimed at obtaining military and industrial secrets. But, Eftimiades points out that the PRC also has "demonstrated a strong interest in penetrating U.S government agencies" for the purpose of obtaining information about diplomatic, political, and economic policies toward the PRC; foreign intelligence operations directed at China; U.S. information requirements concerning the PRC; biographical profiles of U.S. intelligence officers; and details of secure communications capabilities.

Among other things, recruits for this type of work are encouraged to "use every opportunity to meet people who were (or might become) influential." This, Eftimiades says, strongly indicates that China's objective is to "develop a long-term agent who could penetrate deep into the target environment."

The extensive use of personal contacts, or *guanxi* networks, is a hallmark of Chinese intelligence, Eftimiades says. He puts it this way: "Personal contacts are a reasonably universal means of conducting business, in the intelligence field as elsewhere. However, in China these *guanxi* networks have evolved into a highly developed mode of overcoming bureaucratic obstacles such as internal compartmentalization, interagency turf battles, poorly defined criminal codes, and government administrative regulations. Personal contacts are based on family connections, geographic origins, friends, and school classmates."

Besides the customary practice of having agents pose as diplomats and businessmen, Eftimiades says the MSS also makes extensive use of individuals not directly affiliated with the Chinese government. This, Eftimiades says, is a "more sophisticated and difficult method of operation" because it "requires a separate system of control and clandestine communications." It is also, he says, more dangerous because the individuals involved have no diplomatic immunity.

A common recruiting method for this work is to "co-op" the "vast numbers" of Chinese citizens living or traveling overseas, by appealing to their perceived obligation to help the land of their heritage and by implying that family members still in the PRC will receive unfavorable treatment unless the subjects cooperate.

Intelligence officers make extensive use of commercial covers, Eftimiades says. He notes that a vice president of China Resources Holding Company (Hua Ren Jituaj), a Chinese government owned conglomerate in Hong Kong, is traditionally a military intelligence case officer, who coordinates the collection activities of other intelligence personnel operating under Hua Ren cover and maintains several other cover companies in Hong Kong and Macao as well.

China Resources, by the way, is part owner, along with the Lippo Group, of an entity called the Hong Kong Chinese Bank. Lippo is owned by Mochtar Riady, an Indonesian billionaire of Chinese descent who was once, in conjunction with Arkansas's Stephens family, part owner of the Worthen Bank in Little Rock.

Clinton crony, Democratic super fund raiser, and former Commerce Department official John Huang was once President of Lippo's U.S. operations and served as vice president of the Hong Kong Chinese bank from March 1985 to September 1986. He joined the Commerce Department in early 1994, after having had the requirement that he undergo a background check waived "due to the critical need for his expertise in the new administration of Secretary [Ron] Brown. Riady often described Huang as "my man in Washington."

According to a front-page article in the December 27 issue of *Human Events*, the nation's leading weekly conservative newspaper, China Resources purchased 15% of the Hong Kong Chinese bank on November 7, 1992, four days after Clinton was elected president. It bought another 35% on July 17, 1993, just two months after Bill Clinton flipped on his campaign promise not to extend MFN to China unless that country cleaned up its human rights record. *Human Events* described the situation this way.

Thus, as of July 1993, whenever Lippo executives James Riady and John Huang sauntered into the Oval Office, the President of the United States was meeting with two

men who, as officers of Lippo, were full business partners with a Chinese government-owned company known by Western intelligence agencies to be a front for Chinese military intelligence.

By making China Resources a 50% partner in its Hong Kong bank, and giving them equal representation on its board, the Riady family had embraced a huge Communist Chinese octopus. China Resources had begun operations in the 1940s, running guns out of Hong Kong to Communist guerrillas under the command of Mao Tse Tung. By 1995, its assets were valued at 545 billion in Hong Kong dollars.

It owned 13 department stores in Hong Kong and 53 supermarkets. Some 98% of the pigs and cattle sold in Hong Kong are sold by China Resources subsidiaries, as are 60% of the poultry, 50% of the eggs, 90% of the polyester and cloth, and 25% of the petrochemicals. The Communist-owned enterprise also controls part of the Hong Kong port, and much other real estate around the city, including a \$2 billion office tower . . . China Resources was, also, not surprisingly, a major advocate of maintaining China's Most Favored Nation trading status with the United States.

Where all of this is leading is anyone's guess. Two ominous signs for the White House came last week. The first was when Senator Patrick Moynihan (D., N.Y.) became the first Democrat to break ranks and call for the appointment of an independent counsel to investigate the matter.

The Justice Department currently has a task force assigned to the job. And while there is no one question that the FBI agents assigned to the task will do a thorough and honest job, there is considerable skepticism in some circles as to what might happen to their findings when they reach the higher echelons of the Bureau, given the close links between certain of the agency's high ranking officials and the White House.

The second was when Wang took the Fifth Amendment in response to a request for documents by the House Government Reform and Oversight Committee, but said in a letter that he would be willing to work with the panel in exchange for "limited immunity." Because of Huang's close ties to Lippo, to Clinton, and to former Commerce Secretary Ron Brown, he is at the center of the entire controversy.

The *Washington Post* reported last week that entries from Huang's desk calendar and telephone records show that while he was at Commerce, and carrying a top security clearance, he continued to have extensive dealings with both Lippo and Chinese government officials.

For example, the *Post* says, Huang's expense account records show "he left his Commerce Department office to visit the Indonesian embassy on Massachusetts Avenue NW on Oct. 11 [1995], claiming a \$5 reimbursement for taxicab fare. The expense records indicate Huang did not return to his office at Commerce until the following day--when he took another \$5 cab ride, not from the Indonesian Embassy but, according to his records, from the 'residence of the Chinese ambassador.'"

In the final paragraph of his book, Eftimiade predicted that in the near future China's espionage activities would "become more sophisticated," and China's intelligence agencies would soon

"come of age in the international arena." Three years later, this prediction is beginning to look pretty good. My guess is that by the end of the year, we'll know just how good.

As I said in last week's piece, I think that while the fight over renewal of MFN for China will be extremely nasty this time around, the odds still favor renewal when the issue comes up in the spring. But, as I also said last week, it certainly isn't a sure thing anymore.

But, when considering this, it is worth remembering the words of Harry Wu, one of the most prominent expatriate Chinese dissidents, in a front page article on him in the November 20 *Wall Street Journal*.

Bill Clinton himself won't meet with Wu. But other prominent Americans who have met with him have enormous respect for his wisdom and courage. Indeed, he has often been described as the Chinese Solzhenitsyn, having spent 19 years in Chinese prisons for his political views and having written numerous books on the subject.

After finally being allowed to leave China, he returned secretly, at enormous risk, four times to gain information on the human rights atrocities being committed there. On his latest trip, in April 1994, he posed as a wealthy American seeking an organ donor for a sick uncle. He visited 27 labor camps to document that China was removing organs from executed prisoners for use in transplants to wealthy or powerful Chinese recipients.

The *Journal* paraphrased Wu's thoughts as follows:

Through all the turmoil and upheavals of the last half century, the one force that kept China cohesive was the ideology of communism. Now he says, "communism as an ideology is finished. That's very, very important." China has absorbed the West's capitalism without absorbing its freedoms and its democracy, he says. That means a lot of money is floating around, but property and capital remain in the hands of the state. So, people in the power structure inevitably are going to fight over the spoils. Eventually, this could turn into a struggle for power between the military and the civilian leadership, or among civilians and various factions of the military.

So, Mr. Wu makes . . . a hard nosed argument to business leaders. "I say go ahead and put your money over there," he asserts. "You only learn from your loss." In other words, Mr. Wu argues that a long-term investment in China is an investment in a potentially unstable country.

---

## THE POLITICAL FORUM

Copyright 2006. The Political Forum. 8563 Senedo Road, Mt. Jackson, Virginia 22842, tel. 540-477-9762, fax 540-477-3359. All rights reserved. Information contained herein is based on data obtained from recognized services, issuer reports or communications, or other sources believed to be reliable. However, such information has not been verified by us, and we do not make any representations as to its accuracy or completeness, and we are not responsible for typographical errors. Any statements nonfactual in nature constitute only current opinions which are subject to change without notice.