

## Economic Terrorism

Mike Collins, Author, Saving American Manufacturing



“We have never seen a problem of this size or magnitude in world history. There’s more counterfeiting going on in China now than we have ever seen before,” says Dan Chow, a law professor at Ohio State University who specializes in Chinese counterfeiting. “We know that 15 to 20 percent of all goods in China are counterfeit.”

The facts:

- In 2006 an estimated 8 percent of China’s Domestic Gross Product (GDP) was generated by counterfeiting.
- China’s own Council of Research and Development Center estimated that there was \$19 billion to \$24 billion worth of counterfeit goods flooding China’s economy back in 2001.
- Brand owners estimate that 15 to 20 percent of all well known brands in the PRC are counterfeit.
- Up to 80 percent of all worldwide counterfeiting is done in China.
- In 2005, U.S. Customs seized \$93 million worth of counterfeiting and infringing goods. China is going to implement Compulsory Certificates for high tech goods that are issued during the import customs clearance. If you don’t have a certificate the process can add 25 to 30 days to process a license.
- Encryption codes for products like secure routers, anti spam and anti-hacking software databases and other high tech products will have to be reviewed by a government panel, which could be leaked to Chinese competitors. The CCR certificates would either give the Chinese our encryption codes and trade secrets or prevent large U.S. companies from

selling to China.

### **Reasons For Counterfeiting**

When America began off shoring products to China they naively expected the Chinese to play fair and act like America's other trading partners. Everybody seemed to forget that China is one party authoritarian government and they might have a very different view of fairness and capitalism. Buying a fake Rolex or a pirated DVD on the street may seem pretty harmless but intellectual property rights are only the tip of a bigger corrupt iceberg.

A report by the Organization of Economic Cooperation and Development estimated that China's counterfeit trade amounted to \$200 billion in 2005. They also said that criminal syndicates are behind much of the counterfeit trade and that some of the money is used to support abusive labor practices, drug trafficking, and prostitution.

A big part of the problem is that many government officials are easily bribed and the judicial system is reluctant to prosecute. The government is very afraid of social unrest and counterfeit factories keep a lot of poor people employed. The Carnegie Endowment for International Peace found that the odds of going to jail for counterfeiting are "at most, 3 out of 100. Most of the cases that are prosecuted usually pay a small fine and are back in business in matter of days."

My own view is that because the Chinese have never grown up in a democracy, they have a very different view of ethics and the law. They seem to think that in world trade anything you can do to achieve individual gain or competitive advantage over a rival is all part of the game. This is part of their culture and varies from a little old lady copying Nike shoes to espionage and spying.

John Engler of the National Association of Manufacturers says, "Counterfeiting on the part of the Chinese companies has reached epidemic proportions. This is grand larceny on a massive scale and it has to stop."

Can their counterfeiting be called criminal or economic terrorism? Here are some examples:

In Los Angeles, a Chinese born aerospace engineer who had access to sensitive information on the space shuttle was sentenced to 15 years in prison for stealing the information and sending it to China. U.S. District Judge, Cormac Carmey declared he "could not put a price tag on national security and sought to send a signal to China to stop sending their spies here."

An ex Ford engineer is accused of copying thousands of Ford Motor Co. trade secrets and then quitting his job and moving to Shenzhen, China. He was arrested when he came back from China to Chicago. The indictment says Mike Yu copied design details on doors, mirrors, steering wheel assemblies, power systems, wipers and other vehicle components.

Mike Yu used this information to acquire a job in China with a Ford Competitor. U.S

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Attorney Terence Berg said, "Employees and Employers should be aware that stealing proprietary trade secrets to gain a competitive advantage is a serious federal offense that will be prosecuted aggressively."

### **The Special Case Of Brett Kingstone**

Brett Kingstone started a company called Super Vision in Orlando, Florida. It was based on his invention of a special fiber optic product that could replace the multibillion dollar neon sign market.

He started with projects for AT&T, Euro Disney, Pepsi Cola and Disney in Orlando. He had patented his product and he began looking for distributors all over the world. His sales grew from \$1.7 million to over \$10 million in just a few years and he was doing particularly well in the Asian markets.

But then, in 1998, his sales in Asia began evaporating and he discovered a Chinese competitor who was offering a product almost identical to his product but at 50 percent lower price. The mysterious Chinese competitor was also trying to persuade Super Visions distributors to sign up with them.

At the same time he discovered convincing evidence that somebody was sabotaging his production line in Florida. Things continued to go down hill until an employee admitted that he had seen two of Super Vision's employees throwing documents and parts into a dumpster. When the two employees were questioned they admitted they had been working for a company owned by a Samson Wu.

Shortly thereafter, another employee admitted he had been on a retainer of \$20,000 per month with the same company to steal proprietary design and process secrets. Another employee, Jack Caruso, was also being paid by Wu to steal blueprints, chemical formulations, diagrams, laboratory equipment and even large pieces of equipment from inside the locked R&D lab.

Brett enlisted a law firm and for 2 years gathered the evidence to build a case against the WU family, which included other members of the family and two businesses in Florida, Marson Trading Company and Optic International..

The jury found the Wu family and their conspirators guilty on 10 counts and awarded Super Vision a \$43 million judgment. The guilty company immediately shut down all bank accounts, left the properties to the bank, and left the country.

The FBI was notified but was never interested in going after the perpetrators after the bombing on Sept.11, 2001 happened. Brett also contacted the lead prosecutor of the Florida Attorney General's office who got him an appointment with the U.S. attorney's office.

The U.S. Attorney would not prosecute for technical reasons. The original District Court judge finally sentenced Samson Wu to 10 days in jail for fraud on the court and forced WU to ship all of his processing equipment back to the U.S. (But no court orders were issued to collect any money).

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As a final desperate act Brett asked the Commerce Department to intervene but they offered no assistance. Brett says, "In the meantime they continue to sign trade agreements with China which are repeatedly dishonored by the Chinese and unenforced by our government."

Brett Kingstone sums it up this way, "Now we are seeing a very different war come to our shores. This one is being ignored while our economic foundation is being ripped out from under us. China is systematically stealing our technological and manufacturing base and counterfeiting our products and developments with cheap labor, thereby devastating our manufacturing industries. The fallout from these economic acts of terrorism will be much more severe than overt acts of terrorism."

He goes on to say that by allowing and supporting counterfeiting and espionage the Chinese government is doing a better job of looking after their people and manufacturing sectors than the U.S. government is doing.

The fact is that we are in an all out economic war and the U.S. economy is losing in terms of globalization. The tactics used by the Chinese are not just simple acts of counterfeiting of simple consumer products; it is espionage and economic terrorism at its best. We have mortgaged our country and economic terrorism threatens economic growth, job security, R &D and technology efforts and our standard of living.

### **So What Can We Do?**

America can begin by enforcing the laws that are already in place and help companies like Super Vision. We can work harder at forcing the Chinese and other countries to quit manipulating their currencies.

We should not be sending any government work, including military contracts, to overseas companies and support American jobs. We should compete with all of our trading partners exactly as they compete with us. This isn't protectionism -simply do unto others as they would do unto you.

The biggest challenge is to convince the Fortune 500 manufacturers that outsourcing to China is not a good long term strategy because we are slowly giving China and other Asian countries our R&D and proprietary secrets to get lower cost products.

The giant companies may be inadvertently destroying their own U.S. markets. Outsourcing may be a legitimate short term strategy for reducing unit costs. But in the long term it will transfer the technology and research and development to China and kill off any hope of reviving American manufacturing.

We are playing right into the hands of our biggest competitor, when we really should be doing everything in our power to not give them any advantage over us.

Jeffrey Immelt, Chairman of GE, suggests the employment goal should be to double

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the manufacturing employment from 10 to 20 percent of total employment by 2020. Perhaps Mr. Immelt is looking down the road and sees what is going to happen to the U.S. economy if we keep outsourcing and allowing the Chinese to copy or steal our technologies.

Or perhaps he sees that the biggest consuming market in the world (his own country) is continuing to decline. In any event it is time for GE and the other giant American companies to quit suggesting goals and to begin walking their talk.

By stealing our technology, copying our products, forcing us into a trade deficit, manipulating their own currency and then buying our debt, the Chinese may win the long-term war of globalization.

*Mike Collins is the author of Saving American Manufacturing. His website is [www.mpcmgt.com](http://www.mpcmgt.com) [1].*

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