

The Big Read US-China relations

Beyond the balloon: the US-China spy game

Chinese state intelligence-gathering has grown in ambition and scale, leaving Washington struggling to catch up

Demetri Sevastopulo in Washington and **Joe Leahy** in Beijing YESTERDAY

The Chinese balloon that flew over North America and loitered over nuclear missile silos in Montana before it was shot down over the Atlantic inspired a range of emotions among Americans: fear, anger, but also humour.

Comedians on Twitter made light of the craft for what to the untrained eye seemed like a lack of sophistication. It inspired a Saturday Night Live parody. In Montana, where it was first spotted by the public, ranchers quipped about who had the best gun to shoot down the object, which was flying at about 20km.

“There were lots of jokes, especially around Billings, where the balloon was sighted,” says Max Baucus, a former Montana senator who served as US ambassador to China between 2014 and 2017. “It’s fascinating how a wandering balloon causes such a commotion.”

In Washington, there was less laughter. The appearance of what the US calls a spy balloon with intelligence-collecting gear over North American soil exacerbated concerns that China is stepping up surveillance activity in near space. Charlie “Tuna” Moore, a retired F-16 pilot who was deputy head of US Cyber Command, says the high altitude balloon potentially had capabilities ranging from the ability to take high-resolution images, to sensors that do everything from enabling eavesdropping on conversations to seeing how US weapons systems communicate with each other.

The incident two weeks ago was a vivid reminder of China’s desire to gather information on its chief geopolitical rival as diplomatic relations have frayed in recent years. The Ministry of State Security, the main Chinese intelligence agency, has become increasingly active abroad over the past 10 to 15 years, while the People’s Liberation Army has expanded its surveillance capabilities. In November, the Pentagon said China had more than 260 intelligence-related satellites, a doubling from 2018.





US Navy sailors recover a high-altitude surveillance balloon off the coast of Myrtle Beach, South Carolina, earlier this month © US NAVY/AFP/Getty Images

“China is using all kinds of methods to gather intelligence, whether sending people into the US, investing in companies, or satellites,” says Michael Chertoff, a former homeland security secretary. “We shouldn’t be shocked if one of its tools involves aerial surveillance.”

The US has been on higher alert as a result. In recent years, Washington has cracked down on Huawei, the Chinese telecoms firm that it believes helps China conduct electronic espionage. As foreign and defence officials gather at Hotel Bayerischer Hof in Munich this weekend for an annual security conference, some experts have raised concerns about antennas in the vicinity that use Huawei gear.

Over the past couple of years, the US has also sounded the alarm about TikTok, the hugely popular Chinese-owned short-video app, which Washington believes could help China to obtain data on Americans. Huawei denies engaging in any espionage and TikTok says the Chinese government would not be able to access the data — something that US does not believe.

But China has also been adapting its methods of espionage over time as the US steps up counter-intelligence operations. In an interview with the FT last year, FBI director Chris Wray said the Chinese government was “getting by necessity more clever about how to obscure and conceal some of its activities” as the US pushes back.

The balloon may be a highly visible manifestation of China’s espionage efforts, but its more covert operations have been evolving for years.

A legacy of spies

A legacy of spies

The downing of the Chinese balloon has echoes in a key episode in China's 20th century history of spy games with the US.

In Beijing's Military Museum of the Chinese People's Revolution, the prize exhibit is the pockmarked wreckage of an aircraft that became an icon of the cold war — an American U-2 spy plane. The exhibit is a reconstruction made from the remains of four of the five CIA U-2s shot down over China from 1962.

When the first U-2 came down, Chairman Mao Zedong led the celebrations with a ceremony at the Great Hall of the People, according to a museum video.



The wreckage of an American U-2 spy plane on display at the Military Museum of the Chinese People's Revolution in Beijing © Stephen Shaver/UPI/Shutterstock

“From the Chinese Communist rise to power in 1949 to Richard Nixon’s trip to China in 1972, we were extremely aggressive,” says Dennis Wilder, a former top CIA China expert, who added that the spy agency flew U-2s over the Lop Nor nuclear test site in south-east Xinjiang as China was developing its nascent nuclear programme.

In a now declassified top-secret memo to Nixon who was pushing to open direct negotiations with Beijing, Henry Kissinger in 1969 wrote that the CIA believed the US should fly U-2s over China, instead of drones or Blackbird aircraft, because when U-2s had been shot down previously. “no political repercussions were directed” at the

US.

Wilder adds that during the Cultural Revolution, “China was so closed that operatives would go to Hong Kong markets to buy fish because it was wrapped in Chinese newspapers which were otherwise very hard to get”.



US president Richard Nixon with Chinese premier Zhou Enlai in Beijing in 1972 © Sovfoto/UIG/Shutterstock

Then came a less antagonistic era between the two countries. After the US established diplomatic relations with China in 1979, the CIA started working with Chinese intelligence to target the Soviet Union. During a visit to Washington late that year, Deng Xiaoping secretly visited CIA headquarters late at night and discussed a clandestine facility that the US later set up in western China to spy on the Soviet Union.

But after the Tiananmen Square massacre in 1989, the CIA reverted to aggressively spying on China, including continuing the reconnaissance flights up the Chinese coast and other parts of the South China Sea.

A ‘major security screwup’

A wake-up call for the US about China’s capabilities came in the two years before Xi Jinping became head of the Communist party in 2012

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Over that period, the CIA noticed that something was badly awry with its China operations. The MSS was rounding up CIA assets — the spies it recruits — and imprisoning or executing them.

There has since been lots of debate inside the CIA about how it occurred. One theory is that Jerry Lee, a former CIA case officer in China who was sentenced to prison in 2019 for conspiring to commit espionage, gave the MSS the names of assets.



Jerry Lee (in blue tie), a former CIA case officer in China who was sentenced to prison in 2019 for conspiring to commit espionage, was latterly a security guard at Christie's in Hong Kong © Anthony Wallace/AFP/Getty Images

But six people with knowledge of the situation tell the FT the best explanation for how China took down the spy network was that it discovered how CIA operatives communicated with spies using “covcom”, or covert communications.

“We started to see a crackdown on our operatives,” says one former US official. “They got lucky and that allowed them to start pulling the threads on the sweater, and it started to unravel from there.”

A former senior intelligence official says there had been a “major security screwup” that led to the decimation of the spy network. “It was the compromise of the covcom systems that gave the Chinese the leads.”



Officials from the Department of Defense are grilled by senators over the China balloon incident during a Senate appropriations subcommittee hearing in Washington, DC, on February 9 © Anna Rose Layden/Bloomberg

The covcom breach came as China was ramping up its technical counter-intelligence capabilities, says another person familiar with the situation — everything from surveillance cameras and computers that detect licence plates, to the tracing of “digital dust” created by smartphones and internet use.

“The Chinese technical surveillance far exceeded what we thought they were capable of,” says the person, adding that the combination of this capability with Lee’s information and the breach of the covcom was a “perfect storm”. The CIA declined to comment on whether China had penetrated covcom systems.

Stepping up the game

As Xi Jinping came to power, MSS underwent a shift. Chris Johnson, a former top CIA China analyst, says it had for years focused on the “five poisons” — Tibetan and Taiwanese separatists, democracy activists, Falun Gong members and Uyghurs — but that changed under the new general secretary and president.

“He pushed the MSS to step up their game overseas, and to start collecting more in the manner of CIA or MI6, given his view China already has emerged as a great power and therefore should be acting like one on the world stage,” says Johnson, CEO of

China Strategies Group.

One former CIA station chief who is familiar with the MSS says the service has become much better at running operations overseas and has caught up with the Russians, who used to be far ahead.

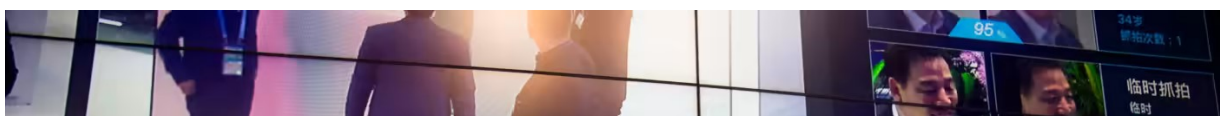


Visitors pass surveillance cameras near the Forbidden City in Beijing © Bloomberg

In the past, Chinese case officers have tended to focus on Chinese nationals, or Chinese-Americans, in the US. But in recent years they've become more aggressive at trying to recruit Americans without any Chinese heritage, according to former officials. The MSS also appears to have stepped up efforts to recruit former CIA officers, based on prosecutions of US citizens in recent years.

But experts say one of the areas where China has been the most active is in stealing intellectual property for everything from genetically modified corn seed to jet engines.

Michael Orlando, head of the National Counterintelligence and Security Center, said in a recent speech that China focused its espionage on stealing military technology two decades ago, but now targets the broader US economy.





Facial recognition technology is demonstrated on a video screen at the World Internet Conference in Wuzhen, China, in 2018 © New York Times/Redux/eyevine

Another area where China has been very aggressive is cyber espionage. The US has accused China of everything from the theft of government employee information from the Office of Personnel Management in 2015 to an attack on the Marriott hotel group.

One person who follows China's cyber activity says it can triangulate data in clever ways. For example, if you find data in an OPM file for someone who does not have a public government profile but stays at Marriott hotels — where US government employees frequently stay — and has many credit card receipts over a period of time from Williamsburg, Virginia where the CIA has its training facility, it could suggest that the person is a covert operative.

Hard targets

The US, meanwhile, has struggled to rebuild the spy network that broke up in the early 2010s. Over the past decade, the dramatic expansion of surveillance in China has made it more difficult for the CIA to recruit spies.

“In the old days, you would go . . . to receptions attended by Chinese diplomats and PLA officers. You would cozy up and make friends and see if anyone was vulnerable,” says another former senior US intelligence official. Now, he adds, China has become an “impossible” target.

That has not stopped China complaining that they are constantly being surveilled by

the US. Zhou Bo, a retired senior Chinese military officer, recently accused the Pentagon of conducting “endless” reconnaissance flights near the Chinese coast and US navy warships of carrying out “freedom of navigation operations” in the area. The US stresses back, however, that its operations are conducted in international airspace and waters.

“The Chinese see themselves as a constant target of US spying and are frustrated that they cannot capture sympathy from the international community,” says Bonnie Glaser, a China expert at the German Marshall Fund.

The balloon, at least, gives the US a chance to prove China is becoming more aggressive about its spycraft. Just as the U-2 in Beijing was a clear indication that the US conducted surveillance over China in the past, US authorities are retrieving parts of the balloon from the sea, and are planning to show the world evidence that it is not, as China claims, merely a meteorological research airship.

Given the level of confidence from US officials on the issue, that could be a revealing moment for Beijing. “China got its hands caught in the cookie jar,” says Glaser.

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