



FEDERAL BUREAU OF INVESTIGATION

EXECUTIVE SUMMARY CHINA: THE RISK TO CORPORATE AMERICA



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China is the world’s principal infringer of intellectual property, and it uses its laws and regulations to put foreign companies at a disadvantage and its own companies at an advantage.

U.S. business interactions with foreign counterparts should be based on the principles of reciprocity, should be grounded in the rule of law, and should seek to uphold our mar

ket-based economy and its innovative ecosystem. China, however, does not play by the same rules.

THE CHINESE GOVERNMENT’S TECHNOLOGY DEVELOPMENT STRATEGY

China’s strategic goals include becoming a comprehensive national power, creating innovation-driven economic growth, and modernizing its military. It aspires to equal or surpass the United States as a global superpower and influence the world with a value system shaped by undemocratic, authoritarian ideals.

Using a whole-of-society approach to achieve these goals, China takes advantage of every opportunity—from joint ventures to economic espionage—to develop and maintain a strategic economic edge.

UNFAIR BUSINESS PRACTICES

China practices technology nationalism. The Chinese government restricts the ability of certain types of foreign companies to participate in its market, requiring them to instead form joint ventures with Chinese companies before they can gain market access. Chinese companies then use some of these collaborations as opportunities to gain access to foreign proprietary information.

The Chinese government is also pursuing the creation of a group of “national champions” consisting of state-owned enterprises that are leaders in their industries. In addition, it works to give Chinese companies a competitive advantage,



sometimes using its intelligence agencies to steal intellectual property and trade secrets from foreign companies.

DIFFERENCES IN BUSINESS PRACTICES	
UNITED STATES	CHINA
GENERALLY ACCESSIBLE MARKET	HIGHLY RESTRICTIVE MARKET
MARKET ECONOMY	STATE-RUN ECONOMY
DEVELOPMENT BY INNOVATION	DEVELOPMENT BY THEFT, REPLICATION, AND COMMERCIALIZATION
INDEPENDENT JUDICIARY AND SEPARATION OF POWERS	JUDICIARY SUBORDINATE TO THE GOVERNMENT
LAWS PROTECTING INTELLECTUAL PROPERTY	UNEQUAL PROTECTION OF INTELLECTUAL PROPERTY
NO GOVERNMENT-SPONSORED ECONOMIC ESPIONAGE	GOVERNMENT-SPONSORED ECONOMIC ESPIONAGE

DOESN'T THE UNITED STATES ALSO PRACTICE UNFAIR BUSINESS PRACTICES?

No, the United States does not generally restrict foreign companies' ability to participate in the U.S. market. The United States does not require foreign companies to form joint ventures with U.S. companies as a precondition for U.S. market access, and it is not trying to create a group of national champions consisting of U.S. government-owned companies. Furthermore, the U.S. government does not give a competitive advantage to U.S. companies by stealing intellectual property and trade secrets from foreign companies.

ACQUISITION OF FOREIGN INTELLECTUAL PROPERTY

To achieve its strategic goals, China relies on various state-directed plans. These plans provide insight into the kinds of intellectual property and trade secrets the country targets and seeks to acquire from foreign sources. At present, China's government has as many as 100 plans guiding China's foreign acquisition in science and technology, and their scale and influence are impressive. Two of the most important among these plans include the 13th Five-Year Plan and the Made in China 2025 Plan.

13th Five-Year Plan (2016–2020)

China's 13th Five-Year Plan focuses on China's transition to an urbanized, environmentally friendly, innovation-based economy with upgraded manufacturing capabilities. The Chinese government recognizes it cannot sustain its existing economic development model of low-wage, low-quality manufacturing combined with government-driven infrastructure investment. To continue driving China's high rates of economic growth, the 13th Five-Year Plan focuses on:



- Maintaining economic growth and upgrading industry in advanced manufacturing, service industries, and emerging strategic industries.
- Promoting innovation in the economy. China's plan relies on innovation as the core driver of economic growth and on Chinese companies to be globally competitive leaders in innovation.
- Urbanizing, modernizing agriculture, and balancing the development of urban and rural areas. This encompasses the mass movement of rural populations to urban areas, improving infrastructure for connecting urban and rural areas, and increasing security and quality of the food supply.
- Endorsing sustainability and ecology. The Chinese government seeks to address air, water, and soil production and to protect and restore China's ecological environment.
- Reforming and transitioning to a new development model in which the market will play a decisive role in resource allocation, forcing the Chinese government to improve. China also aims to upgrade trade with foreign countries to higher-quality products.
- Continuing the improvement of people's livelihoods by upgrading the country's social security support system, elevating 50 million rural people above the government poverty line, and improving the wealth distribution system.

Made in China 2025 Plan

The Made in China 2025 Plan lists 10 domestic Chinese industries in which China seeks to significantly reduce its reliance on foreign-produced technology and develop 70% of the components for these projects in China:



-  Information technology
-  Computer numerical control machine tools and robotics
-  Aerospace equipment
-  Marine engineering equipment and high-tech ships
-  Advanced rail transportation equipment
-  Energy-efficient and new-energy automobiles
-  Electric power equipment
-  Agricultural equipment
-  New materials
-  Biomedicine and high-performance medical instruments

ACCORDING TO THE CHINESE GOVERNMENT’S STATE COUNCIL, CHINA USES THE FOLLOWING FOUR-STEP DEVELOPMENT PROCESS TO GAIN A TECHNOLOGICAL EDGE:

- 1 INTRODUCE** The Chinese government uses numerous methods—some legitimate but others, such as stealing technology from foreign competitors, meant to illicitly **introduce** foreign technology and knowledge to China.
- 2 UNDERSTAND** The Chinese government uses its numerous civilian and military institutions and resources to **understand** the materials acquired from foreign sources.
- 3 ASSIMILATE** Those same institutions **assimilate** foreign technology and knowledge into Chinese infrastructure—frequently by reverse-engineering it.
- 4 RE-INNOVATE** Chinese institutions **re-innovate** foreign technologies, such as military aircraft, high-speed trains, and nuclear reactors, to develop new and state-of-the-art technology. Such advances allow China to achieve generational advances and save time and money on research and development.

CONTACT US:

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