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# THE ROLE OF THE CIA IN ECONOMIC AND TECHNOLOGICAL INTELLIGENCE

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## Background

The [CIA] seems mostly concerned with finding new work. Economic snooping. Threats to the environment. Money laundering. In all it would amount to a kind of retirement program for a cadre of cold warriors not really needed any longer.<sup>1</sup>

For the past 50 years, U.S. intelligence has had a clear-cut mission: to contain the Soviet Union. As one of the predominant branches of the American intelligence community, the Central Intelligence Agency (CIA) has performed its well-defined mission across a broad spectrum of subjects: gathering, analyzing, and acting upon economic, political, and military intelligence. However, with the end of the Cold War and the dissolution of the Soviet Union, the American intelligence community has been scrambling to redefine its roles and missions. Without an overwhelming threat against American interests around the globe, there is a lack of consensus among policymakers as to what the scope and size of the U.S. intelligence community should be.

There are three contending views on the proper role of U.S. intelligence. Some policymakers, such as Chairman of the Senate Select Committee on Intelligence Dennis DeConcini, argue that the CIA and the other U.S. intelligence agencies should readapt themselves to a new global environment; an environment characterized more by economic and technological competition than by military confrontation. Such an adaptation, argues DeConcini, involves making economic intelligence a top priority. Proponents of this viewpoint assert that, with the end of the Cold War, no better entity exists than the CIA to assist U.S. companies in retaining a competitive edge in world markets. While DeConcini does not advocate tasking the CIA to conduct full-scale industrial espionage against foreign companies, he does endorse the limited use of U.S. intelligence

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1. Senator Daniel Moynihan, in John Hanchette, "CIA Searching for Role in Post-Cold War World," *Gannett News Service*, 4 March 1993.

assets in order to assist American firms in retaining a competitive edge. In a recent interview, DeConcini stated:

I'm not sure it's important that General Motors or Ford know what Toyota is doing and the new clutch they're going to present by the first of the century. . . . But it is very important, if Mitsubishi is building a new semiconductor that is three generations out, to have some kind of idea what it is and to get what you can [about it], even if necessary through some surreptitious activities.<sup>2</sup>

A second opinion that is expressed frequently by Senator Daniel Patrick Moynihan, sees the end of the Cold War as justification for the abolishment of the CIA. Moynihan argues that the U.S. intelligence community failed miserably in its past attempts to monitor Soviet behavior and intentions, and would serve the country most effectively as a disbanded organization. This viewpoint, therefore, sees no place for the CIA in economic or technological espionage.

A third opinion takes the middle ground and argues that, while the American intelligence community is likely to be called upon more frequently to play an active role in economic and technological espionage, the CIA and other U.S. intelligence organizations<sup>3</sup> will be limited in the scope of their activities by bureaucratic, budgetary, and legal constraints. According to current Director of Central Intelligence (D.C.I.) R. James Woolsey, the CIA is constrained by its charter from engaging in economic intelligence:

The very difficult question is whether the United States government, under any circumstances, should share any type of economic intelligence, however it is collected, with private citizens or corporations. That is fraught with complexities, legal difficulties, and foreign policy difficulties.<sup>4</sup>

Economic espionage may be simply defined as one nation collecting economic data about another nation. These data may include information such as national G.D.P. and inflation rate figures, which may be obtained from published sources, or more privileged information such as budgetary allocations for defense and national research and development (R&D) expenditures, which are sometimes acquired through illicit means. Similarly, technological espionage involves one nation collecting data about another nation's technological development programs. In many instances, nations conducting technological espionage target a competitor's critical industries such as electronics and biotechnol-

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2. Cited in Jim Mann, "Post-Cold War CIA Fighting for its Future," *Los Angeles Times*, 3 January 1993:A1.

3. Other United States intelligence organizations which may be involved in economic and technological espionage include the Federal Bureau of Investigation (F.B.I.) the National Security Agency, and the Secret Service.

4. Cited in Hanchette.

ogy. Such acquired information may be, in turn, either sold to a third party, or used in the research and development projects of the nation committing technological espionage.

Despite the obstacles preventing the U.S. intelligence community from engaging in economic intelligence, the CIA and other corollary agencies may soon find themselves making a virtue out of necessity. Peter Schweizer shatters the Cold War images of Soviet agents acting as the sole pickpockets of America's economic and technological secrets, and cites evidence that France, Israel, Germany, South Korea and Japan sponsored industrial espionage against American companies. Schweizer asserts that these "friendly" nations, which were America's Cold War allies, have been involved in economic and technological espionage against the United States for the past 45 years. However, with the disappearance of the Soviet threat, Schweizer notes that the U.S. intelligence community will no longer be as willing to look the other way while allied nations steal its most technologically advanced programs.

The CIA is not new to the collection of economic intelligence. From the earliest days of its predecessor, the Office of Strategic Services, the CIA has maintained thorough data regarding the economic performance of nations around the globe. In fact, many reference books used by international economists today owe a considerable portion of their facts and figures dealing with foreign economies to highly trained analysts at CIA headquarters. Combining adequate resources with very selective hiring during the Cold War of economists, accountants, and analysts made the CIA one of the most knowledgeable institutions in the world in the field of international economics.

Speaking on the feasibility of assigning the CIA to conduct and analyze economic intelligence, former D.C.I. Robert Gates states:

[The CIA has] been prepared to do this for probably better than a dozen years, and we have done a little bit of it. Frankly, we have not encountered very much interest from the policy side.<sup>5</sup>

The question then is whether or not the United States should apply the expertise of the CIA to the benefit of American companies. In an era of intense global competition and trade wars, it seems logical to follow this course of action. However, this paper argues that, despite the CIA's recognized effectiveness in gathering economic intelligence against other nations, a shift from a passive to an offensive strategy in economic intelligence would severely impair the effectiveness of the American intelligence community. The CIA is neither institutionally, nor practically, prepared to assist American companies in their effort to retain a competitive edge in the global marketplace. Passing illicit information about other nation's companies to American firms would sink the CIA into a quagmire of bureaucratic, budgetary, and legal dilemmas from which it would never emerge.

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5. Jim Wolf, "CIA Chief Faults U.S. Under-use of Economic Intelligence," *The Reuter Business Report*, 14 January 1993.

### To Collect or Not Collect?

Because American corporations have always engaged in economic espionage through a variety of sophisticated means, assigning a role for the CIA in such activities seems unnecessary. Nevertheless, many government officials consider the CIA an historically proactive organization that is able to succeed when diplomatic efforts do not produce the desired results. Proponents of this viewpoint, like Senator Dennis DeConcini, believe that the United States intelligence community should be prepared to respond in kind to economic espionage conducted against American companies. DeConcini makes a careful distinction between tasking the CIA to gather economic intelligence against countries as a matter of policy, and tasking the CIA to act as a sort of protectorate for American businesses abroad. In December 1992, Senator DeConcini clarified his position by stating that he had serious reservations about using the U.S. intelligence apparatus for economic espionage as a matter of national policy. However, he was quick to add:

If in fact we know an industry, and a country on behalf of that industry, is doing really heavy clandestine espionage for business in our country — whether it's France or Great Britain or Israel or anybody else — we have to be prepared to do it. . . . So what I'm saying is be prepared for some [form of] economic espionage.<sup>6</sup>

Former D.C.I. Robert Gates concurred with this opinion, albeit regretfully. The U.S. intelligence community “does not, should not, and will not engage in industrial espionage,”<sup>7</sup> Gates said, though it would continue to monitor “foreign-government sponsored targeting of American businesses.” Gates’ viewpoint envisages the CIA as engaging in economic and technological espionage only in response to other nations’ illicit activity.<sup>8</sup>

Defining what constitutes illicit activity is problematic. If, for example, Japan decides to closely monitor U.S. development of high-speed computer circuits, does that mean that Japan is passing the acquired information on to its indigenous industries? Could a country simply wish to monitor the United States in order to measure the advancement of its own industries? These and other corollary problems are further confused by the fact that many of the countries which have been accused of spying upon U.S. firms are America’s most steadfast allies, including France, Israel, Great Britain, and South Korea. Therefore, tasking the CIA to conduct economic espionage is to demand that the CIA make a clear distinction between another nation’s curiosity and ill intent — a distinction that should be made in the political arena, not in the intelligence community.

On a more practical level, according to its charter, the CIA is prohibited from

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6. Jim Wolf, “Security Chief Fears Rise in Business Spying,” *Calgary Herald*, 24 December 1992: D11.

7. *Ibid.*, Wolf, “CIA Chief Faults U.S. Under-use of Economic Intelligence.”

8. *Ibid.*

gathering intelligence domestically. Only the President may authorize the CIA to operate within the borders of the United States should he deem that a significant foreign threat exists.<sup>9</sup> Thus, the decision to utilize the CIA in order to collect information on foreign industries on U.S. soil is a political decision that must emanate from the White House, rather than from CIA headquarters. Such a decision would require a high degree of specificity as to the parameters within which the CIA is authorized to assist U.S. companies — and specificity is typically anathema to elected officials who want to retain a high degree of political maneuverability.

An American president may be willing to acknowledge to Congress or the public that scarce intelligence resources are being spent collecting economic information on foreign companies, rather than on more immediate national security concerns. In order to convince Congress and the electorate that economic espionage is worthwhile, the president must clearly demonstrate that the problem of foreign infiltration of American companies is a real threat to the national security of the United States. Throughout the Cold War, successive presidents had no trouble citing evidence that illicit Soviet acquisition of Western technology was a direct threat to the security of the nation. However, with the dissolution of the Soviet Union, American presidents will have more difficulty selling the idea that France's infiltration of Texas Instruments, for instance, merits retaliatory action by a scaled-down CIA.

While the decision to collect information on foreign companies, with the intention of passing the acquired data on to American firms, must be a political one, the policy must also enjoy the full support of both the Executive and Legislative branches of government. Recent evidence suggests that the Clinton Administration may be prepared to take a much tougher stance regarding spying on American companies by allied nations. According to *The New York Times*, the Clinton Administration is preparing an intensive effort to thwart industrial espionage conducted by its allies. Prompted by new evidence that linked France to economic espionage efforts aimed at American businesses, an administration official stated that the number of industrial espionage cases being investigated by the F.B.I. "has soared from ten to five hundred in the last nine months."<sup>10</sup> The same official indicated that the intelligence community was determined to "put an end" to the Cold War policy of looking the other way while America's allies steal her most precious industrial secrets.<sup>11</sup> This rhetoric, while not an official mandate, does suggest that the Clinton Administration will be far less tolerant of allies spying on American firms both in the United States and abroad.

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9. See 1947 National Security Act.

10. Douglas Jehl, "U.S. Expanding its Effort to Halt Spying by Allies," *The New York Times*, 30 April 1993: A1.

11. *Ibid.*

### For Whom to Collect?

If, in the coming years, the CIA is assigned to engage in economic espionage, one daunting question remains to be answered: for whom should it collect? The purpose of economic intelligence collection, according to Senator DeConcini and others, should be to pass on to American companies information which would improve U.S. competitiveness in world markets. Advocates of this viewpoint envisage a close collaboration between American companies and the U.S. intelligence community. Robert Gates has suggested that he favors a process whereby the CIA would pass information on to other government agencies, which could disseminate the information to the private sector. Gates elaborated upon the role he foresees the CIA playing in economic intelligence by stating:

There is a lot of information that can be brought to the table by the D.C.I. on everything from economic negotiations to collusion between foreign industries and foreign governments, to the use of foreign intelligence services against American businesses.<sup>12</sup>

However, on a practical level, American industries and the CIA would have trouble forming a successful working relationship that would significantly benefit either party. How would the CIA determine which U.S. firms were most deserving of the privileged information? A plausible scenario in which the CIA would engage in economic espionage might be the following. A CIA station in France captures an encrypted transmission outlining the details of a French Airbus bid for the construction of a fleet of new-generation airplanes for Lufthansa. Suppose that four U.S. aerospace manufacturers were also in the process of writing their bids for the same project. How would the CIA determine which American firms were most deserving of the acquired information?

While the intent of the proposed policy may be to enhance U.S. competitiveness in relation to foreign firms, the distribution of highly prized industrial information to one, or even a few, companies could lead to deteriorating relations within the U.S. corporate community. Such a deterioration would likely diminish the prospects for joint-venture enterprises, and could lead to an actual decline in American competitiveness in the global marketplace.

Furthermore, it is logical to assume that if the CIA is tasked to conduct economic espionage in the future, the agency would demand some input as to which companies ultimately receive the acquired information. It seems difficult to imagine that the CIA would be willing to pass on information it obtained through surreptitious means to another government agency over which it has no legal or bureaucratic jurisdiction.

It seems unlikely that American businesses would wish to establish too close a relationship with the U.S. intelligence community. Most American firms operating overseas are highly sensitive to the cultural and political climates of the countries in which they are based. In some parts of the world, it is highly

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12. *Ibid.*

improbable that a company doing business abroad would jeopardize its ability to operate in a given country by agreeing to collaborate too closely with the American intelligence community.

The issue of coordination between American businesses and the CIA raises a broader one: should U.S. firms be seen by their competitors as forming a partnership with the CIA, and would foreign governments stand idly by? Such collaboration would likely send the signal to foreign governments that the United States condones economic and technological espionage. The political commitment to utilize the CIA in order to assist American businesses in their drive toward global competitiveness would, in fact, produce the opposite of the intended effect. More countries would be tempted to utilize their intelligence agencies in support of their national industries, thereby creating an even greater demand in America for high quality economic and technological espionage, and a greater commitment of counterintelligence resources to combat foreign infiltration. The cycle is as vicious as it is endless.

Because of such considerations, the former Chief of Staff of the Senate Foreign Relations Committee, Pat M. Holt, argues that the CIA should not get involved in this kind of economic intelligence. Holt contends that the development of close ties between the CIA and American companies operating in the global marketplace would be improper and short-sighted. In a recent editorial, he stated:

The argument for such involvement is that this is how to keep America competitive, that other countries are spying on our businesses and we need to spy on their businesses in self-defense. Hard times at home and accompanying protectionist temptations in trade policy add political appeal to the argument. . . . The way to enhance competitiveness is not to steal from others, but to be more productive ourselves. The U.S. has just been through a wrenching trade negotiation seeking to gain international recognition of intellectual property rights. It would be hypocritical now to turn around and try to steal industrial know-how.<sup>13</sup>

While some observers are uneasy with the prospect of American companies being fed privileged information about their foreign competitors courtesy of the CIA, an alternative method to assist U.S. firms might involve enhancing counterintelligence efforts aimed at foreign infiltrators operating in the United States or abroad.

### The Role of Counterintelligence

Counterintelligence is broadly defined as the method and operations by which a country protects its national secrets from foreign intelligence services.

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13. "New Tasks for American Spies," *The Christian Science Monitor*, 3 January 1993:18.

Counterintelligence efforts may include tracking suspected foreign intelligence operatives, passing on deceptive information to foreign spies, and working with indigenous industries to prevent infiltration by foreign intelligence services. In the coming years, U.S. counterintelligence may be assigned more frequently to prevent foreign intelligence services from obtaining technological secrets from American companies. As such, America's counterintelligence resources may be spread perilously thin as the prevention of economic and technological espionage is elevated to a higher priority.

The Clinton administration is already sending a strong signal to foreign intelligence services that, with the end of the Cold War, the United States will be far less tolerant of foreign intelligence operations aimed at U.S. corporations. Administration sources insist that they are determined to speed up a plan for "vigorous new steps" to detect spying, and to "levy strict penalties against countries that direct it; allies or not."<sup>14</sup> The sources further assert that officials in Washington now describe "friendly spying" as a potentially greater threat than the danger previously posed by the KGB during the Cold War, because developed nations have the industrial capacity to convert secrets into profits.

Peter Schweizer cites extensive evidence linking France, Great Britain, and Israel to state-sponsored industrial espionage against American companies. He notes that these and other nations, which were among America's staunchest allies during the Cold War,

look at the American view of surprise over these activities as being rather naive. They see a division between military alliances and economic rivalry — and in economics, anything goes.<sup>15</sup>

Such a distinction between military allegiance and economic competition made by America's allies has not as yet been emulated by U.S. policymakers. Robert Gates suggests that, during the Cold War, some nations with which the United States had good relations adopted a "two-track" approach, cooperating with America at the level of diplomacy while engaging in adversarial intelligence collection.<sup>16</sup> In one of the most highly publicized cases of "friendly spying," France conducted a full-scale operation against the European offices of IBM, Texas Instruments, and other American high-tech companies. The information gathered from the operation was provided to Compagnie des Machines Bull, a computer firm owned by the French government. The purpose of the operation was to give the French company an advantage over its competitors in bidding on multimillion-dollar contracts.<sup>17</sup>

With the end of the Cold War, America will be obliged to rethink its policy regarding espionage operations conducted by allied nations against U.S. firms.

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14. Jehl: A1.

15. Peter Schweizer, *Friendly Spies: How America's Allies Are Using Economic Espionage to Steal Our Secrets* (New York: Atlantic Monthly Press, 1993): 342.

16. "Gates Warns of Economic Spying Against United States," *Agence France Presse*, 30 April 1993.

17. Jehl: A1.

Presently, D.C.I. Woolsey appears to be addressing this issue. In congressional testimony, Woolsey announced that he wanted to "tighten up" the policing of industrial espionage from the "comparatively lax days of the Cold War." Woolsey elaborated by stating:

It's fair to say that during the Cold War . . . we were relatively gentle. . . . We would see bribery to the detriment of American companies, we would see foreign intelligence services conducting industrial espionage against American companies, and we would perhaps remonstrate but not to be firm in the interests of the greater good of defeating the Soviet Union.<sup>18</sup>

However, allied nations are not the only ones which have conducted successful economic and technological espionage against U.S. companies in the past. The F.B.I. predicts that more than half of the world's nations are running industrial espionage operations against American firms.<sup>19</sup>

### Valley of the Spies

With its concentration of electronics, aerospace, and biotechnology industries, its national ties to the Far East, and its mobile, multinational work force, California's Silicon Valley offers an ideal setting for economic and technological espionage. According to Agent Wong of the F.B.I.'s San Francisco office, China has targeted Silicon Valley for many years in an attempt to acquire highly advanced technologies from the West.<sup>20</sup> Agent Wong notes that past attempts by the U.S. intelligence community to thwart Chinese efforts in the region have produced mixed results:

The problem [facing counterintelligence efforts in Silicon Valley] is compounded by the fact that the United States receives over 15,000 Chinese students, and 36,000 Chinese nationals, each year. The vast majority of these visitors limit their stays to the San Francisco Bay Area, and have no intention of spying on American industry. However, with those kind of numbers, it may be safe to assume that the U.S. counterintelligence community is capable of uncovering only a limited portion of overall Chinese espionage efforts in the region.<sup>21</sup>

The Chinese infiltration of Silicon Valley is but one of many examples of foreign governments using their intelligence agencies to conduct economic and

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18. Deborah Zabarenk, "U.S. Spy Chief Targets Foreign Industrial Espionage," *The Reuter Library Report*, 9 March 1993.

19. See Schweizer.

20. Interview with author, San Francisco, 4 January 1993. For security reasons, the name has been changed.

21. *Ibid.*

technological espionage against U.S. companies. The extent to which American industrial secrets have been compromised will never be known. However, even with the Clinton Administration's heavy emphasis on counterintelligence efforts in the fight against industrial espionage, it will, nonetheless, take an enormous bureaucratic and financial commitment.

### Conclusion

For the past 50 years, the United States intelligence community has had one clear-cut mission: to contain the Soviet Union. With the dissolution of the USSR and the corresponding changes in the global political system, the CIA, as America's predominant intelligence organization, will need to redefine its role and mission in order to meet the new realities of the post-Cold War security environment. One of the pressing questions the CIA will need to address is the extent to which it will commit itself to engaging in the collection of economic and technological intelligence.

According to Woolsey, economic intelligence is the "hottest current topic in intelligence policy."<sup>22</sup> However, despite Woolsey's acknowledgment of the increasing importance of economic intelligence, there is little consensus among policymakers as to exactly how far the CIA and other corollary intelligence agencies should go in assisting American businesses to retain a competitive edge in the global marketplace.

While the viewpoint of Senator Dennis DeConcini may seem to be the best alternative for the intelligence community, such a policy would produce numerous dilemmas for the CIA and its sister agencies. To adopt a policy of retaliation would legitimize economic and technological espionage. Should other nations believe that the United States is conducting retaliatory intelligence operations against their national companies, regardless of whether retaliation is justified, those nations would most likely increase their global intelligence gathering efforts. These developments may have enormous repercussions for the stability of the global free-market system.

Since its inception, the CIA has been actively involved in the collection of economic data against foreign governments. To ask the CIA to take the next step, and be responsible for the dispersal of the acquired information to American businesses, would be disastrous for the CIA, and for U.S. competitiveness in the world marketplace. The CIA has neither the political mandate, nor the infrastructure, to disseminate captured information to American industry. Further, the CIA would be put in the uncomfortable position of having to select which U.S. corporations most deserve the acquired information. Such a visible role for the CIA as the purveyor of privileged data is unimaginable for an organization which prides itself on its ability to remain out of the public limelight.

Throughout its history, the CIA has striven to preserve its unique place in the U.S. government. The agency has been highly resistant to outside meddling

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22. John Hanchette, "CIA's Future Depends on Stability of the World," *Gannett News Service*, 22 March 1993.

beyond what it considers as acceptable congressional oversight. Hence, for the CIA to hand over captured intelligence to another government agency, such as the Department of State, would require the agency to contradict its own institutional ethos. Such a scenario is highly unlikely since, for the past 50 years, the CIA has tenaciously fought for control over its own resources and destiny.

What role, if any, the U.S. intelligence community should play in the collection of economic and technological intelligence remains unclear. Unless the president and Congress are prepared to redefine the structure and mandate of the CIA, then the American intelligence community will need to direct its budgetary resources towards enhancing its counterintelligence capabilities.

Using the CIA and its sister agencies to collect economic and technological intelligence against foreign nations requires little or no adjustment of CIA resources. The CIA already keeps a watchful eye upon global economic trends and the key economic indicators of nations around the planet. However, this gathering of economic and technological intelligence differs from the infiltration of foreign firms for purposes of passing on the acquired information to American companies. In this sense, the essence of the problem remains: for whom to collect?

The recent Clinton Administration commitment to upgrade counterintelligence capabilities seems timely, as debate in the U.S. Congress focuses upon the future role of the CIA in economic and technological espionage. A crackdown on foreign industrial espionage may, in fact, reduce pressure on the American government to conduct retaliatory operations against foreign firms. While no single effort will be capable of completely halting foreign economic and technological espionage, an increase in the effectiveness of counterintelligence capabilities seems the most logical way to discourage foreign competitors from focusing their intelligence assets upon the acquisition of America's most treasured economic and technological secrets.



