

Inside the chinese boom in corporate espionage essay sample

[Countries](#), [China](#)



**ASSIGN
BUSTER**

The article I selected is about a US based company, American Superconductor Corp. (AMSC), founded in 1987 by four MIT professors. In 2006, after years of little to no success in their previous endeavor, superconductivity, AMSC began focusing on wind turbine control systems. Under their new vice president, Daniel McGahn, AMSC set out to capitalize on China's newly passed clean energy law that required seven 10, 000-Mw wind farms strategically placed throughout the country. AMSC produced and packaged the electronic components, which included a programmable logic controller and power converter and began selling them to China's wind turbine manufacturers. These Chinese manufacturers built the 1. 5 megawatt, 160-ton turbines and stuffed them with the electronics produced in America.

McGahn, who previously worked with other Chinese companies, was aware of the dangers AMSC was facing. By this point, it was well known that China had a knack for ripping off their partners and according to the article, Inside the Chinese Boom in Corporate Espionage, " China did not invent intellectual property theft; it's just doing it on an unprecedented scale." Because of his concerns, McGahn interviewed 400 people and handpicked his first 30 employees in China based off who he thought he could trust most. When AMSC's China factory began making power converters, the firmware and other technology-rich components were still produced in the US before being shipped to Asia. The software was created at AMSC's research facility in Austria and their control systems software was on a secured server in Klagenfurt, Austria. McGahn went to such extremes to protect this

knowledge from Chinese investors that the source code was not even accessible from the Internet.

AMSC's largest customer became China's Sinovel Wind Group, who accounted for more than two-thirds of their \$315 million revenue in 2010. In June 2011, 3 American Superconductor Corp. employees made their way to China's Gobi Desert to inspect a wind turbine manufactured by Sinovel Wind Group and running on AMSC's test version of its control system software. The software running the turbine was supposed to automatically disable the blades after the initial test period, but for some reason, this turbine kept spinning. Initial reports were unclear as to what the problem was so the technicians copied the control system's software and sent it to their research center in Klagenfurt, Austria. AMSC's researchers found that the Sinovel turbine was running a stolen version of their software. The software also concluded that Sinovel had gained complete access to AMSC's proprietary source. In March 2011, Sinovel turned away a semi full of AMSC electronic components to the tune of \$70 million. Sinovel no longer needed AMSC.

After an exhaustive investigation and with the help of private investigators, AMSC was able to pinpoint a Serbian software engineer, Dejan Karabasevic, who was employed at AMSC's research facility in Klagenfurt, Austria, as Sinovel's source of information. Karabasevic confessed to working for Sinovel starting in 2010 and by January 2011, Sinovel began searching for a Beijing apartment for Karabasevic. In May 2011, Karabasevic spent 5 days creating software that could go in Sinovel's existing turbines. With 3 Sinovel employees, Karabasevic traveled to a wind farm and by June 2011,

Karabasevic had completed his code. AMSC was able to identify more than 1,000 Sinovel turbines that the stolen code had been implanted in.

In hindsight, McGahn realizes Sinovel's president, Han Junliang, never intended to keep his partnership with AMSC. Upon opening a second Sinovel turbine, ASMC investigators found the original AMSC power convertor had been exchanged with a near duplicate made by Guotong Electric and running on stolen AMSC's control system software. Ironically, Guotong Electric was created with the help of Jan Junliang, who also serves as a chairman and gave Sinovel a 20% stake. AMSC investigators were also able to find a contract between Karabasevic and Sinovel, signed by Han Junliang.

In the article, Inside the Chinese Boom in Corporate Espionage, we gain a closer look into the way China does business:

In terms of outright theft of intellectual property, there is growing evidence that China's intelligence agencies are involved, as attacks spread from hits on large technology companies to the hacking of startups and even law firms. "The government can basically put their hands in and take whatever they want," says Michael Wessel, who sits on the U. S.-China Economic and Security Review Commission that reports to Congress. "We need to take more actions and protect our intellectual property." (pg. 8) American Superconductor Corp. currently has filed four civil complaints in Beijing copyright infringement courts in China against Sinovel. Former AMSC employee and turned Chinese informer, Dejan Karabasevic pled guilty to distribution of trade secrets and was sentenced to 12 months in jail and two years probation in September.

Comments

I have always been aware that China is known for their theft of intellectual property, such as movies, music, cell phones, software, etc., especially on their black market, so it was not much of a surprise that a big time corporation like Sinovel is also apart of this illegal behavior. What I did find interesting is that their government is also a big part of this movement and does not seem to care that the rest of the world also sees it.

Michael Wessel's comment about the Chinese government putting their hands into whatever they want and taking it makes a big impression because he is on the U. S.-China Economic and Security Review Commission. Wessel see's cases like this everyday and the pending lawsuits or the World Trade Organization cannot do anything to stop them. It appears to me that Chinese CEOs and company presidents are rewarded for their illegal actions and getting the needed information to gain the upper hand is just apart of their cultural.

Another interesting part of this article was the pending lawsuits against Sinovel by AMSC in China. The article states that Sinovel has steep home-field advantage and are seeking over a billion dollars in damages even though AMSC has extensive proof that Sinovel is in the wrong. U. S. companies are not the only ones having issues with the Chinese Government and how they practice trade. Japan and the European Union have also filed formal complaints to the World Trade Organization over the unfair trade practices done by China. It will be very interesting to see how these pending trials will pan out and if there will be stricter laws implemented by the WTO.

Textbook

Page 59 of Global Business Today states, “ In the high-technology “ knowledge” economy of the twenty-first century, intellectual property has become an increasingly important source of economic value for businesses.” This statement directly correlates with my article because Sinovel and China are doing whatever it takes to make money, even if it is stealing. Even though China is a member of the World Intellectual Property Organization it is one of the worst offenders in Asia. The book (pg. 60) also warns firms to be on high alert to ensure pirated and copied versions of their products do not hit the foreign market. From the very beginning American Superconductor Corp. took tried to take as many precautions as possible to prevent this from happening to them and even though they were not successful, they were able to catch it in a timely matter.

Works Cited

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- 2) Hill, Charles W. L. Global Business Today. 7th ed. New York: McGraw-Hill Irwin, 2011. Print.