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For Washington, Russian And China Tech Spies Suddenly Everywhere

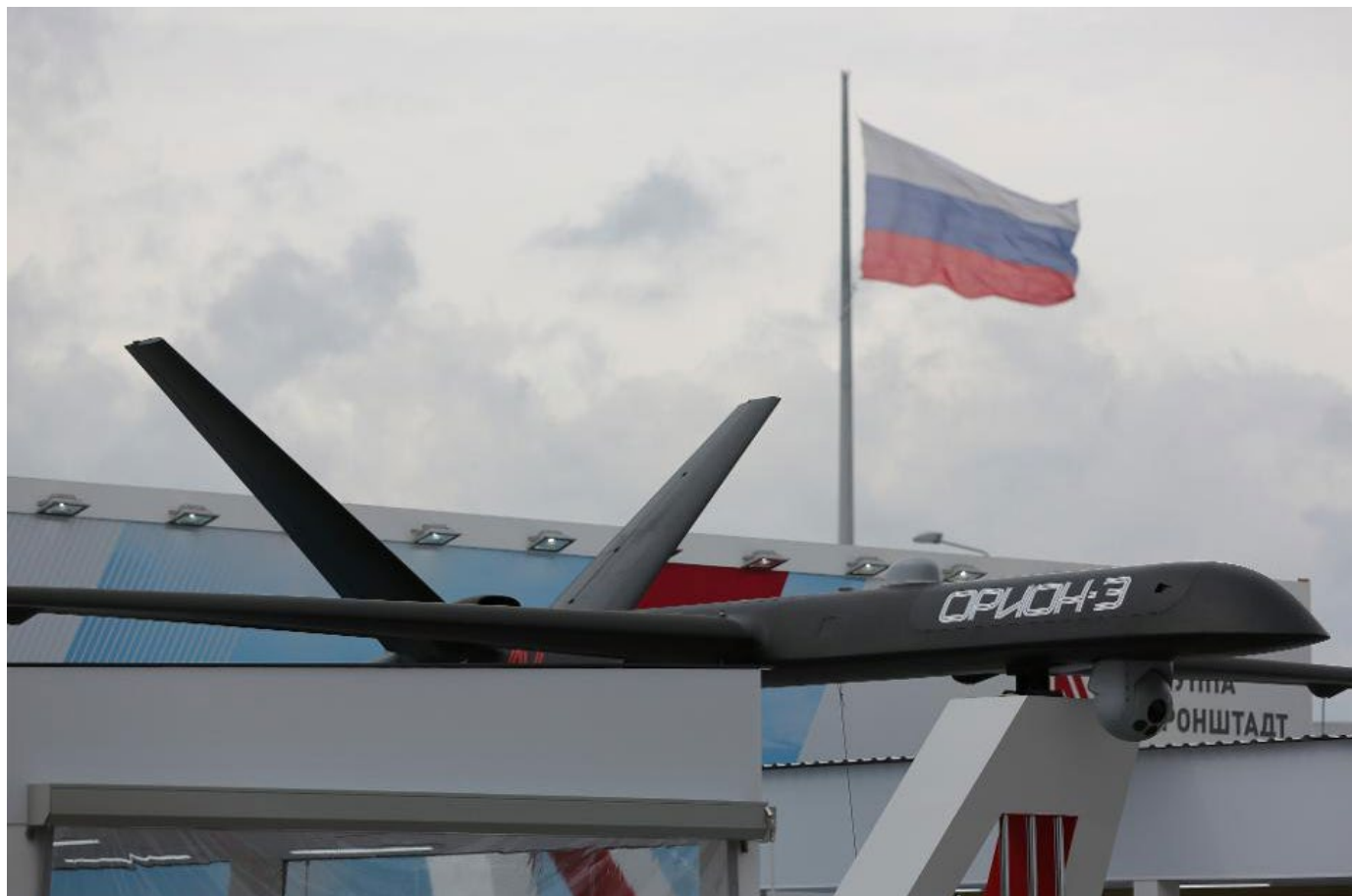


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I write about business and investing in emerging markets.





A Russian 'Orion' long-endurance unmanned aerial vehicle, developed by Aurora Flight Sciences Corp., at the Kubinka airfield in Russia in August 2018. The U.S. China and Russia are in a race to build the best drones. Among other things. ANDREY RUDAKOV© 2018 BLOOMBERG FINANCE LP

It can't be any clearer. This year set it in stone. From the day Trump was elected, despite his own call for cooperation with Russia, and calling Xi Jinping a friend, Russia and China became our new supervillains.

They are everywhere. Especially embedded in our technology sector, and therefore cannot be sold to, bought or partnered with.

What are the risks of ostracizing Russia and China investors?

“Are there risks in this? No, not really,” says Dr. Steve Blank, a Senior Fellow at the American Foreign Policy Council in Washington, D.C. “They’re threatening the West and, in the case of Russia, see themselves as an opposition to the West. They’ve increased their espionage in the U.S. The rhetoric may be overblown, but the policy response is not.”

The Department of Defense’s 136-page [Annual Report to Congress](#) singled out China, saying they used espionage to steal technologies for use in their military. The report was released earlier this

year.

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As we are about to enter the final quarter of 2019, it seems a certainty that more of the same can be expected with regards to Russia and China. If it's not tariffs, it's sanctions.

Despite Trump's overtures to both countries, despite his call to bring Russia into the G7 and make it the G8 again, his tenure has been highly antagonizing to the Kremlin. Sanctions on technology sales to Moscow, and even quasi-sanctions on Russia and Chinese nationals working in the U.S., are not going away.

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“We have the Chinese civilian spy agency hacking private and government servers or using conventional industrial spying by Chinese nationals embedded in U.S. companies already,” says Usha Haley, a professor of management from Wichita State University, who has written extensively on China. Her latest is on China investment in U.S. oil and gas companies in order to gain expertise on fracking technologies.

“The level of theft out of China has increased,” she says, saying nearly two thirds of Department of Justice patent infringement cases involve China. “They don't care if they get caught. They want as much info as they can before the source dries up. I don't know if it will dry up. But right now they see it as fertile ground. They know the U.S. is getting much more cautious about them.”

Last December, two Chinese nationals were



Usha Haley, professor of global business at Wichita State University, at a Senate hearing in 2013 about China business. She thinks China has increased its industrial espionage efforts, based on cases at the

indicted for conspiracy to hack into private servers, commit wire fraud, and identity theft. The two in question worked for Huaying Haitai Science & Technology Development Company and acted in cahoots with the Chinese Ministry of State Security in Tianjin. According to the Pentagon, these guys worked with the Advanced Persistent Threat 10 (APT10) group, conducted global campaigns of hacking, going primarily after U.S. corporate secrets. The APT10 group supposedly stole large amounts of data from aviation companies, space and satellite technology IP, manufacturing technology, computer hardware, pharma, oil and gas, you name it. Companies that were victimized were not mentioned in the report.

The U.S. is in a mild panic over this. If two countries ever stood in the way of the U.S. benign global hegemony it is Russia and China. That's how Washington sees it. If there is to be a one world order led by U.S. corporations and Washington, Russia and China would have to be brought to heel in the opinion of the mainstream American foreign policy makers.

Russia and China are cooperating on military exercises and arms sales and are slowly building links to live in a world of U.S. sanctions. If Washington is ostracizing them, then Moscow and Beijing may join forces. Cold War 2.0 is here.

Sometimes the players are political appointees. With the case of Russia, they jockey in and out of both the government and business.

Former Russian minister of “Open Government” in charge of liaison between then president Dmitry Medvedev and the Russian business class, Mikhail Abyzov, [was arrested in March on suspicion of embezzling 4 billion rubles \(\\$62 million\)](#). He faces up to 20 years behind bars if convicted. The ex-minister has denied the charges. He is still waiting for a hearing.



Matryoshka dolls depicting Vladimir Putin and Xi Jinping on display at a souvenir stand in St. Petersburg this summer. ANDREY RUDAKOV/© 2019 BLOOMBERG FINANCE LP

Online, Abyzov efforts to penetrate the U.S. tech sector is [connected to the Russian](#)

Maria Butina, who helped bring the National Rifle Association to Russia and was once a much talked about figure in the Russia-Trump conspiracy theory.

Abyzov, a former billionaire, was once the sole shareholder of weapons company called Promtehnologii. They make top-of-the line sniper rifles supposedly used by Russian-backed rebels in the Donbass of Ukraine and in Syria. Abyzov is, or was, in the Russian defense industry business.

Abyzov began **investing** in American companies through the Bright Capital Fund, an under-the-radar Russian venture capital firm in Moscow. Unlike most of venture firms that are built on their money managers' reputations, Bright Capital doesn't list any of its portfolio managers on their English language website.



Former Russian Minister Mikhail Abyzov (center) heads to a hearing on March 27, 2019. Russia's anti-corruption agency alleges he ran a "criminal group" that "embezzled funds". He is connected to a VC firm investing in U.S. tech. PAVEL GOLOVKIN/ASSOCIATED PRESS

Bright Capital has not been accused of spying.

However, Bright Capital's managing director, Mikhail Chuchkevich, was arrested in Russia

in 2018 on suspicion of embezzlement, which may be why his picture is not on their website.

The Investigative Committee of Russia, Russia's anti-corruption agency, believes he embezzled \$20 million from the government run Russian Venture Company through a Richmond, California-based portfolio holding called Alion Energy. The company manufactures robots for automatic assembly of solar photovoltaic plants.

A look at their current investments in the U.S shows what type of company Russia venture firms are getting involved in, and many are products with military use.

Their portfolio includes a \$75 million investment Santa Clara, California-based Alta Devices—developers of flexible solar panels used on drones and other aircraft.

Last year, [Alta Devices said](#) the U.S. Navy Research Laboratory would use its devices for some test drones. There is a global competition going on between the U.S., Russia, and China to spearhead the drone-technology development.

Curious Russian investors may want to know what's going on in the U.S. Navy. And their one degree of separation gets Russian hawks in a tizzy.

“You will see some blocking of investment deals involving Russians, especially if it interfaces with the U.S. security community in any way,” says Mark Simakovsky, a nonresident fellow at The Atlantic Council's Eurasia Center. Simakovsky worked at the State Department and Pentagon under George W. Bush and Barack Obama between 2007 and 2015.

Some Russian companies are welcome here. [Forbes](#)-listed billionaire Oleg Deripaska's aluminum company Rusal invested in Kentucky. But even that will get closer due diligence.



The Pentagon is forcing a more skeptical look at Russia investments, just as they are with the Chinese. GETTY IMAGES

Abyzov-linked Bright Capital exited out of Palo Alto-based Augmented Pixels, a company focused on AR technologies and developing automatic navigation algorithms for drones. The tech is mainly for the military use for improve guidance precision in unmanned aviation vehicles.

Bright Capital did not return a request for comment.

But a venture capital investor in Moscow who wished to remain anonymous because of his firm's investments in the United States said that they are investing in startups just like American VC firms.

“Yes, we know the technology and understand it,” he said. “But we don't have blueprints of it, and we don't share it with the government because there is nothing to share.”

On August 30, a Russian named Alexander Korshunov, director for business development at Russia's United Engine Corporation (UEC), [was detained at an airport in Italy](#) after Washington issued a warrant for his arrest.

UEC produces engines for civilian and military aircraft. Russian state-owned enterprise Rostech, a massive holding company headed by Vladimir Putin's close associate Sergey Chemezov. Rostech is mostly invested in defense-related tech firms and said Korshunov

was innocent. Putin said the U.S. was playing politics with this arrest, vilifying Russia once again.

[Earlier this year](#) even the Dutch, who tend to have solid relations with Russia, warned of doing business with Russian tech firms because of industrial espionage.

“You’re not dealing with private capital in Russia,” says Blank. “It’s all connected to the government. I’d tell you that the majority of these Russian VC firms are not in it for the money.”



Vladimir Putin says the U.S. is playing politics with all this industrial espionage spy "nonsense." ALEXANDER ZEMLIANICHENKO, POOL/ASSOCIATED PRESS

U.S.-Russian relations have declined to the lowest point since the Cold War. Whatever positive cooperative elements in the relationship remain are fully overshadowed by differences and disputes.

In contrast, China benefits much more from stable relations with the United States and the existing U.S.-led international order which has benefited their economy. Beijing’s disputes with Washington are growing, but have not yet reached a stage where the tensions overshadow Beijing’s interests in keeping a good working relationship with American multinationals, a [report by the National Bureau of Asian Research in Seattle assessed recently](#).

Russia does not enjoy such status. And while trade between the two countries is small, Washington’s new “tech war” has Russia working quickly to rid itself of American technology, whether it’s Google Android for its smartphones or Microsoft products for their government computers.

“Companies have to be aware of the risk and be ready to mitigate those risks,” says Simakovsky. “You have to be ready to describe why taking money from a Russian company is not a threat to national security. Forget the old way of doing business with them. Those days are gone,” he says. “I don’t think you ban Russia and China investment here. There are just more minefields now.”

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