



Risks and Challenges for Business Protection in the 21st Century – A German Perspective

Dr. Peter Roell

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Abstract

Four risks and challenges for business protection in the 21st century are in the focus: economic and industrial espionage, threats to trade routes, competition for resources and corruption.

The current annual report of the German Federal Office for the Protection of the Constitution (BfV) points out quite clearly that the intelligence services of the Russian Federation and of the People's Republic of China are especially active in Germany. Therefore, knowledge of their aims, organisation and methods and of pertinent commercial competitors will certainly help to put efficient counter-measures in place.

Free trade routes and secure natural resources are of vital importance to Germany and Europe in the future. Potential threats caused by piracy and maritime terrorism, political, economic and military developments must be analysed in order to develop adequate counter-measures.

A look at the strategic ellipse, a region ranging from the Near East to the Caspian Sea and to Russia's far North shows that approximately two thirds of the world's known and currently extractable oil and gas resources are located in this region. For this reason the countries located in the ellipse are of fundamental political and economic importance not only for Germany, but the entire Western World.

Obviously, competition for natural resources will continue to increase. As demand rises and supplies dwindle Germany's challenge in the near future will be to reduce its dependence on imports and at the same time continue to secure its vital supply chains. This cannot be accomplished without increased diversification and improved cooperation between the state and private sectors both at international and EU level.

German companies engaged worldwide are increasingly confronted with corruption, amongst other countries particularly in China. The Chinese government has recognised the existence of endemic corruption, but has hitherto fought a battle against windmills. However, without significant political reforms and systemic changes no significant advances can be made. Clearly, such changes would eventually question the supremacy of the Chinese Communist Party.



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ANALYSIS

Economic and Industrial Espionage

First, I should like to begin my exposition about economic and industrial espionage by stating two definitions: Economic espionage means the state-controlled or state-driven gathering of intelligence conducted against foreign economic enterprises. Competitive business intelligence means the gathering of intelligence by a company conducted against another competing company.

With view to economic and industrial espionage let me quote Benjamin Franklin: “Investment in knowledge pays the best interest rates” (Benjamin Franklin, 1706 – 1790)¹ and also Sergej Lebedew, the director of the Russian Foreign Intelligence Service (SVR) from 2000 to 2007. He stated in several interviews, that “the intelligence services are a highly profitable undertaking for any nation which results in a hugely significant return on investment.”² It should be noted that the findings of the intelligence services in Russia are also made available to Russian industry.

From the current annual report of the German Federal Office for the Protection of the Constitution (BfV), presented to the public in Berlin on 1st July 2011 by the German Federal Minister of the Interior, Dr. Hans-Peter Friedrich, and the President of the BfV, Heinz Fromm, it becomes very clear that two intelligence services are particularly active in the Federal Republic of Germany, those of the Russian Federation and of the People’s Republic of China.³ Why is that so?

¹ Quotation available at <http://zitate.net/benjamin%20franklin:2.html> (accessed on Apr. 13, 2012).

See also Benjamin Franklin – Wikipedia, the free encyclopedia http://en.wikipedia.org/wiki/Benjamin_Franklin

² German Federal Office for the Protection of the Constitution (BfV), “Business Protection: Prevention by Information” (“Wirtschaftsschutz: Prävention durch Information“), Newsletter, October 2009, p. 14.

³ German Federal Ministry of the Interior, 2010 Annual Report on the Protection of the Constitution (Summary), p. 9. Available at <http://www.bmi.bund.de> <http://www.verfassungsschutz.de>



In addition to Germany's geopolitical situation, its importance for NATO and its leading role in the world economy, it is in particular its high technology these intelligence services and foreign competitors are focussing on. China's aim to play a leading role in the world and in the world economic order by 2020 and Russia's ambitious plans to modernise the country are compelling motives behind the activities of the above-mentioned intelligence services. They are playing a major role in securing and achieving the aims of both China and Russia.

Discussing these intelligence activities should not be considered as another variant of the so-called "Russia or China bashing", but simply reflecting what Western intelligence services and other sources are telling us.

Given the high significance of energy resources for both the Russian Federation and China the whole energy sector in Germany is very much in the focus of the Russian and Chinese intelligence services. As Germany develops new technologies in order to harness alternative energy sources following the political decision to switch from non-renewable to renewable energy sources, these intelligence services will most evidently try to concentrate on gaining an increased amount of information on significant cutting-edge technologies, exempting these countries from the costly obligation of having to develop their own technologies.

In the energy sector the Russian Intelligence Services are focusing on the collection of intelligence and provide support activities in the following areas:

- Strategies developed by target countries to diversify their energy supply, leading to a reduction of their dependency on Russian energy deliveries.
- Projected investments in future raw material and sales markets.
- Development of raw-material markets and their infrastructures.
- Providing support for lobbying activities by Russian energy companies and facilitating their installation in Germany⁴

In Germany the following Russian intelligence services are very active:

SVR (Sluzhba Vneshney Razvedki)

The non-military external intelligence service SVR collects intelligence in and on foreign countries in the fields of politics, economy, science and technology. In addition, the SVR is gathering intelligence on targets and methods employed by Western intelligence and security organisations and conducts signal intelligence. Also, the SVR is involved in combating international terrorism and the proliferation of weapons of mass destruction outside Russian territory. The organisation has a staff of more than 13,000 employees. The current head of the SVR is Mikhail Fradkov.

GRU (Glavnoye Razvedyvatel'noye Upravleniye)

The GRU is the foreign military intelligence service. Subordinate to the Russian Ministry of Defence, it comprises a staff of more than 12,000. Its intelligence activities are targeted against foreign security policy and foreign

⁴ German Federal Office for the Protection of the Constitution (BfV), Business Protection: Prevention by Information, „Energy Sector – a focus of economic espionage in Germany“. (Wirtschaftsschutz: Prävention durch Information, „Energiewirtschaft ein Schwerpunkt russischer Wirtschaftsspionage in Deutschland“), Newsletter October 2009, pp. 14-15.



military entities, including the German Armed Forces (Bundeswehr), NATO and other Western defence infrastructures as well as military technology. The current head of the GRU is Major General Igor Sergun.

FSB (Federal'naya Sluzhba Bezopasnosti)

The domestic security service FSB is responsible for an extremely wide range of tasks. They include non-military and military counter-intelligence, surveillance of political extremists, counter-terrorism, organised crime, border control and security, telecommunications and IT-security. Of the 350,000 employees, more than 200,000 are involved in border control. Its current head is Alexander Bortnikov.⁵

Information collection in Germany by Russian intelligence services is mostly conducted using regular members of the intelligence services concerned, who work under diplomatic or journalistic cover. However, some intelligence-gathering and collection activities of the services are directly controlled and conducted by their respective Moscow HQs, e.g. the intensive signal intelligence activity. Some intelligence activities directed against Germany are conducted not only out of Russia but also from other countries.

A large part of intelligence required by Russian intelligence services stems from the analysis of open information sources, such as the Internet and other media, by visiting industrial trade fairs, the participation in public events, conferences and discussion circles and conversations with contacts. Particularly sensitive information is obviously also collected using professional methods of conspiracy.⁶

The arrest in Germany in October 2011 of two suspected agents by the German Federal Criminal Police Office (BKA) and the German Federal Anti-Terrorist Unit (GSG9) was spectacular. One agent was arrested just as she was receiving coded radio messages. The married couple had operated under cover in Germany under false names for over 20 years.

According to various sources the arrest of this couple was a result of a tip-off by the FBI which had, in the course of investigations of the Anna Chapman Ring, a group of Russian spies in the United States, stumbled on a connection to Germany. Intensive investigations by the German security services resulted in the arrest of the two agents in Germany.

The career of Andreas Anschlag, the husband put in German arrest, indicates the enormous interest of Russia to acquire secret information in the high technology sector.⁷

The case of a former employee of Eurocopter, a leading manufacturer of civilian and military helicopters, is a good example of the activities of the GRU. Between 2003 and 2006 the agent provided a bulk of technical information to the GRU. Following his disclosure he was prosecuted and sentenced to 11 months of imprisonment on probation in 2008.⁸

Let me now turn to China. According to information released by the German Federal Office for the Protection of the Constitution (BfV) two Chinese intelligence services are particularly active in Germany: the Ministry of State

⁵ German Federal Ministry of the Interior, 2010 Annual Report on the Protection of the Constitution, pp. 294-295.

⁶ Ibid. pp. 295-296.

⁷ Klaus Henning Glitza, "Methods of Foreign Intelligence Services" („Arbeitsweise Fremder Nachrichtendienste"), *Info Sicherheit 04/2011*, Fachmagazin Verband für Sicherheit in der Wirtschaft Norddeutschland e.V., pp. 6-18.

⁸ Uli Rauss, Oliver Schröm, "Our Man for Moscow" („Unser Mann für Moskau"), *Stern*, No. 24, June 2008, pp. 54-58.



Security – MSS and the Military Intelligence Department – MID. Regarding the structures and missions of Chinese intelligence services the BfV report of 2010 states the following:

MSS – Ministry of State Security

The scope of the intelligence missions conducted by the non-military MSS is quite comprehensive. Its personnel resources operating worldwide are quite considerable. Domestically, the MSS exercises police powers. But the service also plays a central role in external intelligence collection. In Germany, the service is collecting information in the fields of economy and politics. Also, the MSS is gathering information on opposition movements and attempting to suppress their activities.

MID – Military Intelligence Department

As integral part of the People's Liberation Army, the MID is a worldwide and offensively operating intelligence service. The service is responsible for collecting information relevant to China's internal and external security and its military potential. Its main intelligence targets are, among others, equipment, structure and potentials of foreign military forces. Other major targets lie in the areas of politics, science and technology.

MPS – Ministry of Public Security

The Ministry of Public Security – MPS, although being the central ministry of police forces, is also making use of intelligence methods. The MPS is responsible for the maintenance of general public security, thus playing a key role in suppressing domestic unrest. In that context the MPS is engaged in gathering information on activities considered by the People's Republic of China (PRC) to be or to become a security hazard. Another major task of the MPS consists in the surveillance and control of the media and the Internet.

Bureau 610

The Bureau 610, named after its date of foundation (10th June 1999), is subordinate to the Commission for politics and law of the Central Committee of the Chinese Communist Party. It is responsible to observe and combat the regime-critical meditation movement of Falun Gong. The service receives assistance by various other departments: the administration, justice, police and the intelligence community. Its activities include China and other foreign countries. The Bureau 610 is also engaged in intelligence-gathering activities in Germany, cooperating with the MSS and other services.⁹

In the field of economic espionage in Germany the Chinese intelligence services are focusing on the acquisition of sensitive information concerning new research results or cutting-edge technologies. Due to the intricate and obscure links between the state and private business sector, it is quite difficult to distinguish whether these attempted intelligence-gathering activities by the Chinese are state-driven economic espionage operations, competitive business intelligence activities carried out by private companies or the initiative of individuals.¹⁰

The method of information gathering used by Chinese intelligence services in Germany consists in making use of their diplomatic and consular missions. Among these are the Embassy of the PRC in Berlin and the General

⁹ Federal Ministry of the Interior, 2010 Annual Report on the Protection of the Constitution, pp. 303-304.

¹⁰ Ibid., pp. 304-305.



Consulates in Frankfurt am Main, Munich and Hamburg. In these diplomatic missions Chinese intelligence services run so-called “legal residencies“ staffed with regular members of the intelligence services under cover of diplomats.

Members of these services are also analysing open-source information (press, special literature, Internet etc.), and visit public events or industrial trade fairs. Using their official contacts, they attempt at gleaning sensitive information through cleverly conducted conversations.

Other means of information gathering consist in using what are known as “non-professionals“. There are about 80,000 Chinese living in Germany. The number of guest students has increased from 5,000 in 1988 to around 28,000 in 2010. Representing 13 % of foreign students, they are the largest group of foreign students at German universities. And the number of doctoral students, trainees and scientists working at research institutes steadily continues to rise.

Be it for reasons of patriotism or gratitude for having been granted the permission to study and work in Germany, the propensity of that group to make themselves available to Chinese authorities is obvious. The use of non-professionals from that group is further facilitated due to their high degree of self-organisation.¹¹

However, it would be entirely erroneous to put under general suspicion all Chinese students, scientists etc. working at German universities, research institutes or enterprises. Nevertheless, in the private and research sectors, there is, time and again, sporadic evidence of conspicuous behaviour by individuals, indicating an unwanted, unauthorised leakage of know-how.

The following examples demonstrate the methods employed by so-called internal offenders:

- In the course of his practical training in a German company, a Chinese exchange student succeeded without problem in loading up a large amount of partly confidential company-owned information on to his external hard disk. His activity was facilitated by the fact that the company concerned had obviously ignored any provisions to protect their sensitive information by simply making use of e.g. the need-to-know principle. Thus, the student had unhampered and far-reaching access to various company projects.
- After having been transferred to the customer service department of his company developing regenerative energy technology, a development engineer sold the system control source code to a competitor in China. In return, among other things, he was granted a contract to work for that company for several years. As that Chinese company had been an important customer of the affected enterprise, the case caused considerable turnover and job losses.¹²

What are the challenges facing both state and industry with regard to the threat posed by a lack of business protection in the 21st century?

- On-going threat analyses;

¹¹ German Federal Office for the Protection of the Constitution (BfV), “Use of non-professionals by Chinese intelligence services“ (“Die Instrumentalisierung von Non-Professionals durch chinesische Nachrichtendienste“), BfV Newsletter: “Wirtschaftsschutz – Prävention durch Information“, No. 4/2011, p. 19.

¹² Federal Office for the Protection of the Constitution (BfV), “Internal Offenders – an underestimated risk for enterprises“ (“Innentäter“ – ein unterschätztes Risiko für Unternehmen“), BfV-Newsletter: “Wirtschaftsschutz – Prävention durch Information“, No. 1/2012, p. 6.



- Availability of financial and staff resources for operative and counter-intelligence;
- Improvement of communications between agencies, ministries, partner services and companies;
- Sensitising companies with regards to potential threats.

Threats to Trade Routes

In the preface of the book “Maritime Strategies in Asia”, Volker Schlegel, the former ambassador of the Federal Republic of Germany in Singapore from 1999 to 2002, writes: „ Trade is one of the major cornerstones of our cooperation, and its importance will keep growing. Maintaining the steady flow of the energy, an indispensable prerequisite for steady economic growth, will be equally important. In this context, secure ways of transport on sea-lanes, free from piracy and territorial disputes, are of utmost significance. Maritime transport is still one of the major lifelines of trade. It is vital for every coastal country to adopt a maritime strategy: freedom of maritime activities is one of the cornerstones of prosperity for almost every nation”.¹³

A glance at the Defence Policy Guidelines of the German Ministry of Defence in May 2011 reveals one of the core interests of the Federal Republic of Germany: “Free trade routes and secure natural resources are crucial for the future of Germany and Europe. Around the globe, changes are taking place in markets, channels of distribution and the ways in which natural resources are developed, secured and accessed. The scarcity of energy sources and other raw materials required for high-technology products will have implications for the international community. Restricted access can trigger conflicts. Disruption of transport routes and the flow of raw materials and commodities, e.g. by piracy or sabotage of air transport, pose a threat to security and prosperity. This is why transport and energy security and related issues will play an increasingly important role for our security.”¹⁴

Terrorists will therefore ask themselves where they can hit the infrastructure of the industrialised world most effectively. Perhaps, they will focus their attention on so called *choke points* and mega-harbours, since 75 % of all international sea transport activities are carried out by around 50,000 ships in 2,800 ports. The strategically important Strait of Malacca is one of the critical choke points. It connects the Indian Ocean with the South China Sea and the Pacific. It is the most significant trade route between the Far East, the Gulf States and Europe. 90,000 ships use the Strait every year and one third of the world trade, 80 % of oil exports to East Asia and two thirds of LNG exports pass through the Strait of Malacca.

Should a super tanker be sunk in the Strait of Malacca it would block all traffic, and ships would have to use the Indonesian Sunda and Flores passage. This would result in a detour of at least 1,000 km and two extra days at sea. The resulting costs would increase to approximately 8 billion US dollars per year.

¹³ Jürgen Schwarz, Wilfried A. Herrmann & Hanns-Frank Seller, *Maritime Strategies in Asia* (Bangkok : White Lotus Press, 2002) p. xiii.

¹⁴ German Ministry of Defence, “Defence Policy Guidelines” (Bundesminister der Verteidigung, Verteidigungspolitische Richtlinien,) May 18, 2011, pp. 3-4.



As the largest ports of the world are in South and East Asia, terrorists will focus their planning on ports such as Kobe, Tokyo, Yokohama, Pusan, Shanghai, Kaohsiung, Hong Kong and Singapore. But also mega ports in the U.S.A. and Europe, such as Los Angeles and Rotterdam, could be in the focus of terrorists.¹⁵

Let me remind you of a number of successful maritime attacks:

October 2000

A successful attack was carried out against the US destroyer USS Cole in Yemen. 17 US Sailors were killed, 39 wounded.¹⁶

October 2002

The French oil tanker "Limburg" was attacked by a terrorist group with connections to Al Qaida off Ash Shahir. One member of the crew was killed and 90,000 tons of oil spilled into the Gulf of Aden. The monthly container traffic in Yemen shrank from 43,000 to 3,000. The economy of the country declined by 1 % of its GDP and 3,000 dockworkers lost their job.¹⁷

February 2004

The Abu Sayyaf Group attacked a ferry in the Philippines, 116 people lost their lives.¹⁸

July 2010

A suicide attack was carried out against the Japanese oil tanker "M. Star" in the Strait of Hormuz by the Abdullah Azzam Brigade, a militant group with connections to Al Qaeda. One member of the crew was injured and the hull severely damaged.¹⁹

Let me briefly turn to the subject of piracy. Maritime terrorism, as all forms of terrorism, has a political, ideological or religious background. In the case of piracy monetary reasons prevail.

In the last few years the good cooperation between Singapore, Malaysia and Indonesia has led to a considerable success in combating piracy in this region. Piracy, once rampant, has been largely exterminated.

In contrast to that is the situation off the coast of Somalia. According to a report of 19th January 2012 by the International Chamber of Commerce (ICC), Maritime Bureau (IMB), the greatest threat for international shipping still comes from activities of Somali pirates.²⁰

¹⁵ Dr. Peter Roell, *Piracy in Southeast Asia (Seepiraterie in Südostasien)* (Berlin : Federal College for Security Studies, May 2004), pp. 27-44.

¹⁶ Attack on the USS Cole, available at <http://www.al-bab.com> (accessed on Apr. 15, 2012).

¹⁷ Yemen says tanker blast was terrorism, *BBC News World Edition*, Oct. 16, 2002. Available at http://news.bbc.co.uk/2/hi/middle_east/2334865.stm (accessed on Apr. 15, 2012).

¹⁸ Wikipedia, the free encyclopedia: 2004 SuperFerry 14 bombing. Available at http://en.wikipedia.org/wiki/2004_SuperFerry_14_bombing (accessed on Apr. 15, 2012).

¹⁹ UAE confirms oil tanker attack, *Al Jazeera*. Available at <http://www.aljazeera.com/news/middleeast/2010/09/20108683953783853.html> (accessed on Apr. 15, 2012).

²⁰ Piracy attacks in East and West Africa dominate world report, *ICC Commercial Crime Services*, Jan. 19, 2012. Available at <http://www.icc-ccs.org/news/711-piracy-attacks-in-east-and-west-africa-dominate-world-report> (accessed on Apr. 15, 2012).



The total number of incidents has increased from 219 in 2010 to 237 in 2011. In contrast, however, the number of hijackings declined in the same period from 49 to 28.²¹ The main reasons for this improvement were naval activities of a number of nations and improved security measures taken by shipping companies.

Most of the attacks took place at the crossroads of the Arabian Sea and the Gulf of Aden. For the first time, however, Somali pirates attacked an anchored vessel in Omani waters.²² This shows that the security of ships at harbours in the region needs to be improved.

The U.S. think tank *Oceans Beyond Piracy* has published the report "The Economic Cost of Somali Piracy 2011"²³ in February 2012, in which it comes to the following conclusions:

The economic costs of Somali piracy have resulted in costs of between 6.6 and 6.9 billion US dollars. Expenditures are distributed as follows:

2.7 billion \$ for higher oil consumption due to speed increases in high risk areas

1.3 billion \$ for military operations

1.1 billion \$ for security equipment and armed security guards

635 million \$ for insurance policies

486 to 680 million \$ for course changes along the West coast of India

195 million \$ for higher salaries and risk supplements

The average ransom increased from 4 million US dollars in 2010 to 5 million dollars in 2011. Although the total ransom paid in 2011 amounted to 160 million dollars, it only represents 2 % of the total economic costs caused by Somali piracy.²⁴

We also should keep in mind that the increasing tensions between Iran and the West pose risks and challenges to the international community too.

The European Union has decided to increase the pressure on Tehran and in July 2012 enforced an oil embargo.²⁵ The U.S. had already announced new sanctions against Iran at the end of 2011. The reason was the non-compliance by Iran with IAEA regulations.

Tehran has threatened several times to block the Strait of Hormuz for oil exports to the U.K. and France and has threatened to impose the same sanctions on Germany. The U.S. made it clear that the blockage of the Strait of Hormuz is unacceptable.

According to the United States energy information administration 17 million barrels of oil were transported through the Strait of Hormuz in 2011, around 35 % of all sea-traded oil.²⁶

²¹ Ibid. p.1.

²² Ibid. p.1. See also STRATFOR, Somali Piracy: 2011 Annual Update. Available at <http://www.stratfor.com/sample/analysis/somali-piracy-2011-annual-update> (accessed on Jan. 14, 2012)

²³ See <http://www.oceansbeyondpiracy.org>

²⁴ Out of sight, Somali piracy fight gets rougher, Reuters, London, Feb. 21, 2012. Available at <http://www.reuters.com/article/2012/02/21/us-somalia-pirates-idUSTRE81K0XT20120221> (accessed on Mar. 1, 2012).

²⁵ BBC News Europe, Jan. 23, 2012. Available at <http://www.bbc.co.uk/news/world-europe-16674660> (accessed on Apr. 16, 2012)



Germany only imports a mere 1 % of its oil from Iran, Spain and Italy 12 respectively 13 %, Greece 30 %. China purchases 22 % of all Iranian oil exports, almost as much as the entire European Union. India, Japan, South Korea and other countries in Asia together purchase two thirds of all Iranian oil and not much will change in the near future.

Oil exports are extremely important to Iran as around 70 % of state income result from crude oil exports. A blockade of the Strait of Hormuz would not be in the interest of Iran. Nevertheless, the U.S.A. and her allies have the potential to keep the Strait open in the event of hostile military action.

Military experts are in agreement that Iran would be able to close the Strait of Hormuz for a limited period of time. Vice Admiral Mark Fox, the commander of U.S. naval forces of the region, reminded us recently that the Iranian navy had a number of small ships with large war heads which would be suitable for suicide attacks in the Persian Gulf. This threat should be taken seriously.²⁷

What are the challenges for decision makers in fighting both maritime terrorism and piracy? Decision makers need to understand that fighting piracy and maritime terrorism at sea will not remove the threat. Suitable measures need to be taken onshore in order to achieve success.²⁸

In our ISPSW publication "*Time to rethink the fight against maritime piracy in the Indian Ocean*" by my colleague Maxim Worcester, we made the following recommendations:²⁹

- The first step should be a new look at the Maritime Laws governing the use of force on the high seas and within the territorial coastal areas. These laws need to be taken into the 21st century and adopted to the threats of today.
- The Rules of Engagement of the naval units charged with protecting the trade routes need to be coordinated and agreed on. Furthermore, a close look needs to be taken at the kind of naval vessels, which might be required to combat piracy more cost effectively.
- The use of Private Security Companies should be regulated and agreed.
- Shipping companies need to conform to the basic security requirements when operating in danger areas and should at all times comply with due care for their crew and cargo. They will need to invest in superior passive defence measures and adopt active measures, if required.
- Police and the Security Services should actively combat those international crime groups involved in piracy at the earliest possible point in time in order to reduce the attractiveness of piracy. They should also prevent piracy from being used by terrorist organisations to advance their aims.

²⁶ International Institute for Strategic Studies (IISS London), Mobile Edition, Strait of Hormuz: Iran's disruptive military options. Available at <http://www.iiss.org/publications/strategic-comments/past-issues/volume-18-2012/february/strait-of-hormuz-irans-disruptive-military-options/> (accessed on Apr. 16. 2012)

²⁷ Dr. Peter Roell, "Piracy and Maritime Terrorism – Common Threats to South Korea and Germany", Institute for Strategic, Political, Security and Economic Consultancy (ISPSW) Berlin, ISPSW Strategic Series, Issue No. 183, April 2012, p. 6. Available at <http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail?id=140892>

²⁸ Regarding the engagement of the European Union to combat piracy and indirectly maritime terrorism see also Lutz Feldt, "Operation Atalanta – Europe's Contribution", Institute for Strategic, Political, Security and Economic Consultancy (ISPSW) Berlin, ISPSW Strategic Series, Issue No. 185, April 2012. Available at <http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail?id=140842>

²⁹ Available at <http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail?id=127107> (accessed on Apr. 17, 2012)



- The banking community should take a much closer look at money laundering and report all suspicious transactions to the authorities.
- Long term plans to bring the beginning of stability to Somalia and the establishment of an effective Coast Guard need to be drawn up and funding made available. This could be a public-private partnership involving suitably qualified private security companies.

With regard to Iran the West needs to continue the political dialogue and maintain the ability for robust measures if required. A military response must remain an option.

Competing for Resources

Let me begin by looking at the strategic ellipse, a region ranging from the Near East to the Caspian Sea and to Russia's far North. Approximately two thirds of the world's known oil and gas resources currently available for extraction are located in that region.

The main resources of oil and gas are found in the following countries, ranked by size:

- Saudi Arabia
- Russia
- Iran
- United Arab Emirates
- Qatar
- Iraq
- Kuwait
- Kazakhstan³⁰

For this reason these countries are of high importance – politically and economically –to the Western world and Germany.

In September 2010 a seemingly insignificant incident at first glance made the alarm bells ring in the West. A Chinese trawler had collided with two Japanese Coast Guard vessels near the Senkaku Islands. The Chinese skipper was put into custody by the Japanese, and China responded by threatening to stop the supplies of rare earth minerals to Japan.³¹

As in all other developed economies, Japanese industry is heavily dependent upon those minerals as practically all of the electronic or electrical equipment require the use of rare earths. The West suddenly woke up to the fact that China controls around 97 % of the trade with rare earth minerals.

³⁰ „Strategic Ellipse“ (Strategische Ellipse, aus Wikipedia, freie Enzyklopädie.) Available at http://de.wikipedia.org/wiki/Strategische_Ellipse

³¹ Andreas Oswald, “The Battle for Rare Earths“ (“Der Kampf um seltene Erden”), *Der Tagesspiegel*, Oct. 21, 2010. Available at <http://www.tagesspiegel.de/weltspiegel/ressourcen-der-kampf-um-seltene-erden/1963464.html>



In early 2011 China decided to reduce the export of rare earth minerals by 35 %. The then German Federal Minister of Economics and Technology, Rainer Brüderle, called this an “unfriendly act”.³²

In January 2012 the WTO decided in a final hearing that China’s restrictive export policy of a wide range of raw materials was in conflict with WTO regulations. Brussels and Washington are now considering further steps against China.³³

Tension in the South China Sea is increasing. Vietnam, for example, has accused China of cutting the exploration cables of an oil survey ship in May and June of 2011. Both attacks took place in the so-called “exclusive economic zone”, a 200-mile zone within which the respective nations may both prospect for and extract natural resources.³⁴

The Spratly and Paracel Islands are at the heart of the dispute between Vietnam and China and other nations in the region. According to geologists there are significant deposits of both oil and gas in the sea surrounding the islands. China has stated clearly that it claims sovereignty over the islands and the surrounding sea and has even extended this to the entire South China Sea.

The differences between Washington and Beijing became evident in July 2011 when the Chairman of the Joint Chiefs of Staff, Admiral Mike Mullen, met with his Chinese counterpart, Chen Bing De. On July 10, Admiral Mullen gave a speech at the Renmin University saying: “We are and will remain a Pacific power, just as China is a Pacific power”.³⁵ These differences were still apparent when the future Chinese president, Xi Jinping, visited the United States in February 2012.³⁶

Quite obviously, there is indeed an increased risk of conflict in the region. Military expenditure in the Asia-Pacific region has grown from 161 billion U.S. dollars in 2000 to 290 billion U.S. dollars in 2010³⁷. This increase coupled with a conflict situation around natural resources and regional aspirations is a dangerous mixture that must not be ignored.

All industrialised nations are dependent upon raw material imports. Both China and the U.S.A. have limited national resources, the European Union is wholly dependent upon imports. Africa is the one continent with large natural resources available for export. Experts estimate that the Democratic Republic of Congo (DRC) alone has known resources worth approximately 27 trillion U.S. dollars.³⁸

³² “Merkel opens the Battle for Raw Materials” (“Merkel eröffnet Kampf um Rohstoffe”), *Handelsblatt*, Oct. 14, 2011. Available at <http://www.handelsblatt.com/politik/deutschland/konflikt-mit-china-merkel-eroeffnet-kampf-um-rohstoffe/3562448.html> (assessed on Apr. 20, 2012)

³³ WTO rules in favour of EU against China’s export restraints on raw materials. *Press Release European Commission Directorate-General for Trade*, Brussels, Jan. 30, 2012. Available at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=774> (accessed on Apr. 20, 2012).

³⁴ China accuses Vietnam in South China Sea row, *BBC NEWS ASIA-PACIFIC*, Jun. 10, 2011. Available at <http://www.bbc.co.uk/news/world-asia-pacific-13723443> (accessed on Apr. 20, 2012).

³⁵ Speech by Admiral Mullen on U.S.-China Relations, *U.S. Embassy Beijing, Press Office*, Jul. 11, 2011. Available at <http://iipdigital.usembassy.gov/st/english/texttrans/2011/07/20110712154723su0.2862622.html#axzz1sb9COYJ9>

³⁶ Our love-hate relationship with China, *CNNMoney*, Feb. 13, 2012. Available at http://money.cnn.com/2012/02/13/news/economy/china_us_relations/index.htm (accessed on Apr. 20, 2012).

³⁷ Dr. Klaus Olshausen, “High Tide – Low Tide – Defence Budgets: Increase in Asia, Decrease in Europe and America”, Institute for Strategic, Political, Security and Economic Consultancy (ISPSW) Berlin, ISPSW Strategy Series, Issue No. 174, December 2011. Available at <http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?id=135338>

³⁸ Dr. Alexander von Paleske, “Democratic Republic of Congo – 50 years of Independence. A reason to celebrate?” (“Demokratische Republik Kongo – 50 Jahre Unabhängigkeit. Grund zum Feiern?”), *Nachrichten Heute*. Available at <http://oraclesyndicate.twoday.net/stories/demokratische-republik-kongo-50-jahre-unabhaengigkeit-grund-zum-feiern/>



It is hardly surprising that China is heavily engaged in Africa. In Nigeria, for example, China, through CNOOC (Chinese National Offshore Oil Corporation), has bought a 45 % stake in a major oil and gas field in the Niger delta at a price of 2.3 billion dollars. China has also won more than 4 billion dollars worth of preferential Nigerian exploration rights.³⁹ Bilateral trade between China and African nations stands at 127 billion U.S. dollars in 2010.⁴⁰

However, for the majority of German entrepreneurs the markets of Africa are still considered to be full of risks and suffer from a lack of transparency.⁴¹

In Latin America China is competing with the EU to secure the most productive oil resources in Argentina, Venezuela and Brazil.

In conclusion it has to be said that competition for natural resources will continue to increase. As demand rises and supplies dwindle, it will be Germany's challenge to reduce dependency on imports and, at the same time, to secure the supply chains by diversifying. This cannot be accomplished without improved cooperation between state and the private sector.

Corruption

Let me now turn to the subject of corruption and concentrate on the People's Republic of China.

On October 20, 2009, the ambassador of the People's Republic of China in the Federal Republic of Germany gave a written interview to the Chinese newspaper "International Herald Leader", published on October 22, 2009. In this interview he points to the fact that Germany, considering its own colonial history, has no reason to treat China in an arrogant way or criticise it.⁴² Indeed, we don't need to educate the Chinese. However, we could perhaps make some recommendations.

In this context it is interesting to note what Prime Minister Wen Jiabao said at a press conference in March 2007: "We have to admit that the phenomenon of corruption has become increasingly threatening and even involves high level decision makers. Corrupt elements, regardless of their rank, must be punished severely according to Chinese law."⁴³

In a speech in front of high-ranking officials in January 2008, President Hu Jintao emphasised: "Unfettered corruption can lead to the destruction of the Communist Party."⁴⁴ On the occasion of the 90th anniversary of the

³⁹ The Great Chessboard, China in Africa – Pt. 1 "Oil", Aug. 27, 2011. Available at <http://thegreatchessboard.wordpress.com/tag/cnooc/> (accessed on Apr. 21, 2012)

The web address of the article has changed to: <http://www.worldindebate.com/china-in-africa-pt-1-oil/>

⁴⁰ Ibid. P.1.

⁴¹ Heiko Schwiderowski, Association of German Chambers of Industry and Commerce (Deutscher Industrie- und Handelskammertag - DIHK), Berlin, 22. Newsletter, Jun. 9, 2011.

⁴² Written Interview with Ambassador Wu Hongbo (Schriftinterview mit Botschafter Wu Hongbo), *The Chinese newspaper International Herald Leader*, Oct. 22, 2009. Available at <http://big5.fmprc.gov.cn/gate/big5/de.china-embassy.org/det/dszl/dsjscf/t622162.htm> (accessed on Apr. 21, 2012).

⁴³ Chinese Premier vows to punish all law-breaking corrupt officials, *Xinhua*, Mar. 16, 2007. Available at http://news.xinhuanet.com/english/2007-03/16/content_5855298.htm (accessed on Apr. 21, 2012).

⁴⁴ *World Review 2008*. Available at <http://lifeworth.com/lifeworth2008/tag/anti-corruption/> (accessed on Apr. 21, 2012).



Chinese Communist Party on 1st of July, 2011, he re-emphasised: “If not effectively curbed, corruption will cost the party the trust and support of the people.”⁴⁵

By executing two former top politicians in July 2011, the party demonstrated its decisiveness in the fight against corruption. The two politicians, the vice-mayor of the city of Hangzhou and his counterpart from Suzhou, Xu Maiyong and Jiang Renjie, stood accused of accepting bribes to the value of around 27 million Euros.⁴⁶

Wu Yu Liang, a senior member of the disciplinary commission of the Chinese Communist Party, reported that nearly 140,000 graft cases were filed in China in 2010 and that more than 146,000 people were punished in corruption cases.⁴⁷

The last known two cases of corruption at very high government level are those of Liu Zhijun and Bo Xilai. China’s Railway Minister Liu Zhijun was removed from office in February 2011 for “serious breaches of discipline”. He stands accused of accepting bribes to the value 85 million Euros⁴⁸. Bo Xilai was dismissed from his post as member of the CPC Central Committee Political Bureau and the CPC Central Committee because he has been accused of violating the Party discipline, causing damage to the cause and the image of the Party and state.⁴⁹ The downfall of former Chongqing Communist Party chief is likely rooted in his anti-reform stance. Bo is known for launching two high-profile campaigns in Chongqing – one to promote China’s communist past and the other to crack down on the city’s organised crime.

A report of the Chinese National Bank in June 2011 illustrates the high level of corruption in China. According to the report around 20,000 corrupt officials have transferred around 87 billion Euros over the last 15 years out of the country. Most of these bribes were transferred to the U.S.A. and Canada.⁵⁰

China’s ranking in the Transparency International Corruption Perception Index (CPI) in 2011 clearly shows the high level of corruption in the country. China ranks 75th out of 183 countries, and on the scale of zero (highly corrupt) to ten (very clean), China scores 3.6. Greece, probably one of the most corrupt European countries, is slightly behind China in terms of the CPI ranking (80) and slightly better than China on the one to ten ranking (3.4).⁵¹ Obviously, the European Union is hardly in the position to point a finger at China.

The situation in India is even worse. The country comes in on 95th place on the CPI ranking and scores 3.1 on the corruption scale.⁵²

⁴⁵ CPC to intensify efforts to combat corruption: Hu Jintao, *Xinhua*, Beijing, Jul. 1, 2011. Available at http://news.xinhuanet.com/english2010/china/2011-07/01/c_13960191.htm (accessed Apr. 21, 2012).

⁴⁶ Wang Jingqiong, Two former officials executed, *China Daily*, Jul. 20, 2011. Available at http://www.chinadaily.com.cn/cndy/2011-07/20/content_12939151.htm (accessed on Apr. 21, 2012).

⁴⁷ China Plans to Step up Fight Against Corruption, *ABC News*, Beijing, Jun. 22, 2011. Available at <http://abcnews.go.com/International/wireStory?id=13899362> (accessed on Apr. 21, 2012).

⁴⁸ Edward Wong, China’s Railway Minister Loses Post in Corruption Inquiry, *The New York Times*, Feb. 12, 2011. Available at http://www.nytimes.com/2011/02/13/world/asia/13china.html?_r=1&pagewanted=print (accessed on Apr. 22, 2012).

⁴⁹ China calls for support amid Bo Xilai fall-out, *BBC News Asia*, Apr. 11, 2012. Available at <http://www.bbc.co.uk/news/world-asia-17673498> (accessed on Apr. 22, 2012).

⁵⁰ “Bribery: Chinese officials pocket 123 billion Dollars”, (“Bestechung: Chinas Beamte kassierten 123 Mrd. Dollar”), *Die Presse*, Jun. 17, 2011. Available at http://diepresse.com/home/politik/aussenpolitik/671105/Bestechung_Chinas-Beamte-kassierten-123-Mrd-Dollar (accessed on Apr. 22, 2012). See also SPIEGEL ONLINE. Available at <http://www.spiegel.de/wirtschaft/soziales/0,1518,768891,00.html>

⁵¹ Transparency International Corruption Perceptions Index 2011. Available at <http://www.transparency.de/Tabellarisches-Ranking.2021.0.html> (accessed on Apr. 22, 2012).

⁵² *Ibid*, p. 4



Corruption is deeply embedded in Chinese culture. Nevertheless, Beijing has undertaken a number of steps to reduce the level of corruption. As a member of Transparency International recently told me, China has passed around 4,000 laws which serve to fight corruption.

What is my conclusion and what are the challenges facing German companies in the coming years? Indeed, the Chinese leadership has recognised the existence of endemic corruption but has hitherto fought a battle against windmills. Without significant political reforms and a change of the system no significant advances can be made. However, such changes would question the supremacy of the Chinese Communist Party.

We can and should, therefore, assist China in its effort to develop an independent judiciary assisted by efficient control organs, improve its legal system and enhance the training of state officials. There is no reason to be afraid of a strong China – rather of a weak one.

Regarding business opportunities in China I advise German business people to observe the following guidelines:

1. Intercultural competence is a key factor for personal and business success in China.
2. Conduct due diligence of all your business partners and companies **prior to** any negotiations.
3. Use the good offices of suitably qualified law firms.
4. Establish and nurture relationships (guanxi).
5. Be aware at all times whom you associate with, as corruption is endemic in China.
6. Keep to the law!
7. Do not be tempted to engage in corruption.
8. Do not engage in dubious business practices.
9. Seek competent advice in cases of suspicious behaviour.
10. Do not forget that there are also honest Chinese business people who are interested in doing business with reliable business partners.⁵³

Conclusion

In the coming years, both the Federal Republic of Germany and German enterprises will continue to be in the focus of Russian and Chinese intelligence services and exposed to intelligence activities of other services and competitors. Since economic and business espionage are not limited to Germany and Europe, most countries must elaborate threat analyses and, correspondingly, put up efficient countermeasures.

In my view, there will be no essential decrease in the annual damages valued between 20 and 30 billion Euros⁵⁴ caused by economic espionage in Germany. The enhanced information exchange between state authorities and the private sector during the past years has created more confidence and led to an improvement of counter-

⁵³ Dr. Peter Roell, "Corruption and the Fight against Corruption in the PRC" (Korruption und Korruptionsbekämpfung in der VR China), Institute for Strategic, Political, Security and Economic Consultancy (ISPSW), Berlin, Apr. 6, 2009. Available at <http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail?id=98635>

⁵⁴ Majja Palmer, „Industrial Espionage: Spying rife as web adds to risks“, *Financial Times*, Jun. 2, 2011. Available at <http://www.ft.com/intl/cms/s/0/12ebf69a-8b21-11e0-b2f1-00144feab49a.html#axzz1t2Q4UGPn>



pionage operations and damage limitation. This cooperation must be continuously expanded. Quite often, particularly small and medium-sized businesses are unaware of the threat.

The protection of sea routes is among the core interests of the Federal Republic of Germany and other export-oriented nations and a challenge for the international community. Potential threats, such as piracy and maritime terrorism, can only be countered by combined efforts on the political, economic and military levels. The European Union provides a significant contribution to this effort through Operation ATALANTA.

In the next years, the demand for natural resources will continue to grow, while scarcity of raw materials will become even more evident. Today, resulting conflict potentials become already more and more obvious. For Germany and Europe, possible solutions to these problems are the diversification of raw material sources, investment in renewable energy resources and improvement of cooperation between state and economy on a national, EU and international level.

Corruption is not only a phenomenon occurring in China or Asia, but also in Africa, Latin America, Europe and the USA, bearing different characteristics respectively. Reproaches and accusations are not very helpful for finding proper solutions. What would be needed are a constructive dialogue and the support and assistance in enhancing the legal system and improving an independent judiciary and its control organs.

At times of global crises and in the face of a large number of potential threats fear is a bad piece of advice for crisis management. Only those who see opportunities despite the crises will prevail.

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About the Author of this Issue

Since January 2006 Dr. Peter Roell is president of the Institute for Strategic, Political, Security and Economic Consultancy (ISPSW) in Berlin. Before, he served as senior advisor for foreign and security policy at the Permanent Representation of the Federal Republic of Germany to the EU in Brussels. In Germany, Dr. Roell served also as director of the Asia-Pacific, Latin America and Africa (Sub-Sahara) branch and at German embassies in the Near and Middle East and in Asia.

Dr. Roell studied sinology and political sciences at the universities of Bonn, Taipei and Heidelberg and holds a Ph.D. from the Ruprecht-Karls-University in Heidelberg.

Dr. Roell is an ancien of the NATO Defense College in Rome and the Federal College for Security Policy Studies (BAKS) in Berlin.



Dr. Peter Roell