



TOPIC: Presentation by Bill Majcher - "How do we bridge the growing cyber trust deficit between China and the West?"

Held in Committee Room 3, House of Lords, 6.00 p.m. to 7.30 p.m., 27th February 2019

1) Present

Lord Mackenzie of Framwellgate OBE

Lord Hodgson of Astley

Admiral Lord West

James Morris MP

Prof Keith Mayes

Andrew Henderson

Colin Dobson

Bill Majcher

2) Chairman's welcome

Lord Mackenzie welcomed everyone to the meeting. He outlined the question for the meeting which was "How do we bridge the growing cyber trust deficit between China and the West?" Lord Mackenzie introduced Bill Majcher, retired Royal Canadian Mounted Policeman and President of EMIDR. Bill runs his business in Hong Kong, focussed on Corporate Risk and asset recovery operations.

3) Bill Majcher

Bill Majcher – introduced himself and his business. Will speak to China's inability to see the world as we see it in the West. He is now mostly focussed on money laundering matters. One major client, the Govt of China and Bill is working on the return of US\$ 1.2 trillion of fraudulently acquired money.

There is a trust deficit between China and the West (Slide 7). Bill put his success in dealing with the Chinese to one important recommendation: know the history of China. We also need to understand how China looks at the West. China's Golden Shield means that Chinese people see what the Government wants them to see, they do not have full Internet access as Westerners do. They see the attack on Huawei as a concerted attack by the West to keep China down. They also see this in an historical perspective of any attacks by the West on China.

Does the West trust China? (Slide 8) West restricts China from simply coming in and buying up businesses etc. Chinese do business overseas as they do in China. China is improving its game, buying companies and not stealing the technology.

Slide 9 / 10 – what does China fear the most? Social instability. Chinese Government could not understand how so much money was moving in and out with so much financial control in place. Bill looked at this, large firms are able to move money by devices such as ledger swaps. Chinese Govt also interested in what is coming in financially. Chinese are not comfortable doing business outside of their own country, they miss their culture, ways of doing business, food etc.



APPG ON CYBER SECURITY MEETING

At a policy level the Chinese believed until recently that anything less than 7% growth p.a. will fuel social instability. Chinese are the greatest capitalists on Earth. The Chinese Communist Party is above everything else, including the law. It aggregates power and needs to maintain that. There have been attempts on President Xi's life which have not made the Press here.

Slide 11 – we are not the good guys, we are hacking and being hacked. China is skilled but not very adept at hacking as compared to some other state actors

Slides 12 to 14 - UK can take the global role of cyber referee, as a fair minded player. Real world and the digital world are equally valid for all of us. In the real world we have judges, police etc. but not in the digital world and we need it.

Technology is only a medium, it is not an element of a crime in itself. We over rely on technology to provide the answers. With fintech everyone is focussed on how their technology is so good and will save the financial world, the bad guys look at how they can exploit it.

Much of the money which has left China has gone to English language countries. Wealthy Chinese families often send their children to live in “5 eyes” countries because they value stability and the rule of law. The leaders of China can remember the Cultural Revolution and the turmoil caused by that event.

Slide 15 – Australian intelligence service first identified how 5G technology could be used to exploit cyber weaknesses, from that they identified Huawei as the market leader and a potential threat as a Chinese firm. The UK is the only major country that has not bought into a blanket ban on 5G. The UK has set up a certification process which has been noted.

UK is credible in cyber security because of its history of R&D and academic achievement. Avoiding conflict in the digital world, will help us avoid conflict in the real world. UK stands up for human rights, rule of law and stands up to the US. UK is uniquely positioned to be the global cyber referee.

China is likely to move up a gear on HumInt. Social engineering is really important. Snowden is a good example, he provided the information, the Chinese did not have to hack it. A CIA operative (retired) was responsible for blowing the cover on a number of CIA assets in China, the information was handed over to the Chinese.

Not everyone in China supports Huawei, some in the PLA thinks that they have not done enough to spy; some perceptions that the owner of Huawei is resistant to going under the thumb of the Party. China is treating Canada badly because Canada is honouring a treaty. President Xi has not spoken in public about the Huawei arrests. If you only have one tool in the toolbox and it is a hammer, then every problem is a nail.

Chinese Government has told all firms to gather intelligence for the State as decreed by recent law if called upon. Government wants the money that firms make to be spent in China.

The UK is the only jurisdiction on the planet with the depth, history, law and language to be a global referee. China will not change its game plan, why should it? In 1960 China and India were economically in the same place, China has created 5 times the wealth per head than India. A strong authoritarian leadership in China helps to keep it under control.



Questions and comments

Dr Keith Scott, DMU – flattering idea of the UK as a global referee. Who devises the rules and how do you get people to play by them? What are the penalties that the referee can use, esp. against a country the size of China?

BM - China craves social acceptance. Trump is admired by the Chinese as a strongman. China has not lived up to WTO rules, enforcement was lacking which emboldened China. If we do nothing then that would be a disaster. No easy answer to this question.

If China will not listen to you, we need to clean up our own neighbourhood e.g. fake news.

Lord West – China has a track record of doing things in cyber. Need to separate human rights, one belt, one road from the cyber side. NCSC can manage the risk. Huawei has upgraded its systems to make them secure. Huawei have been kept out of certain, highly secure, areas. We need to show a willingness to do these things in terms of our relationship with China. Our Govt has not yet made clear what its view is. Need a clear Govt statement on Huawei and 5G, we need the equipment and Huawei are the best at it.

Ade Clewell, NCC Group – what is your view on an event that make China realise that it should change direction? Is there anything that the world can do to bring China into the fold to play by the same rules?

BM - In November 2018 there was a major tech symposium in Shanghai. Fear that Western firms would avoid it, feared that they would lose face. There is an insecurity based on a perceived lack of respect for China. That is a useful tool to manage China.

China will not become a superpower as corruption is rife. Not bothered that things have to work when they must. Don't like flying their planes off their own aircraft carriers due to risk. No magic pill. There is some rising nationalism, which is more scary, esp. amongst the young.

China is not an egalitarian country, this creates unhappiness and dissent.

Prof Keith Mayes RHUL – cautious on a blanket ban on Huawei technology. If you have open disclosure which Huawei has offered then that is OK. If you don't use Huawei, you need to buy your technology for 5G from someone. The assurance process should be the basis of the choice.

Graham Mann – Is it fair to say that China's ageing population and manufacturing base mean that they are keener to acquire AI technology as well as investing overseas?

BM - Who helped kick start the world after the last global financial crisis? Three things drive the Chinese economy: Exports, Direct foreign investment, Consumption; Resilience to ensure that the economy can survive global shocks. In the last ten years China has moved from an agrarian to an urban society, this helped to fuel growth as people needed to buy higher end goods etc. China needs to increase productivity and create a consumer class to drive their economy. Chinese are scared of getting caught, Russians are not. Chinese people are not violent, focussed on making money and do not have the same view on the sanctity of human life as we do.

Babita Kumar, BP – What are the regulatory measures that we should focus on to contain international money laundering?



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BM – a “one size fits all” compliance regime does not work. Most people do not understand money laundering, the way people launder money is not generally illegal, the source of the money is.

The Common Reporting Standard was the global response to tax evasion, the US did not sign up to it. US banks provide a safe haven. 70% of trade is in US Dollars and outside the CRS system.

Lord Mackenzie – do the good guys need to co-operate more so that those who do not comply feel the “heat”?

BM – partially correct. The facilitators are the problem: lawyers, accountants and bankers. The UK has successfully established banking systems and legal opinions to help set up such schemes. No-one goes to jail. How is it that BNP bank got a US\$9.5 billion fine for Iranian sanctions busting, although this helped to finance an attack on and the death of 200 US marines?

Meeting closed at 19.21.