

## IN THE NEWS

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### World News

We continue to cover the tension between China and Japan because this could escalate into open war. In the latest ongoing saga, China is expanding its claims in the South China Sea. For example, the People's Daily, China's most-circulated newspaper in China, is calling to examine if Okinawa is actually part of China [1]. It should be noted that this publication is considered the mouthpiece of the ruling Communist party [2]. Then People's Liberation Army Major General Luo Yuan also called for a review of Japan's sovereignty claim over the Ryukyu islands that include Okinawa [3]. In response, Japan lodged a diplomatic protest [4]. As expected, China rejected the protest [5]. With respect to other contested islands, because Chinese Foreign Ministry spokeswoman Hua Chunying described the Diaoyu Islands as a core interest; China effectively committed to defending these islands at all costs [6]. This increases the likelihood of an armed confrontation between China and Japan that in turn could drag the US into to mix. Meanwhile, the nuclear reprocessing plant in the village of Rokkasho in the prefecture of Aomori, Japan (capable of processing enough plutonium for 2,000 bombs per year), is due to complete active tests [7]. This is the last stage before becoming operational.

Elsewhere, China continues to expand its military capabilities. For instance, on May 13, it conducted a test of its new ground launched anti-satellite missile [8]. What's more, China is building two new missile submarine classes in addition to the 8 nuclear missile subs they currently have [9]. Furthermore, China's proxy, North Korea is again active. For example, the communist north launched three short range missiles [10].

1. Business Insider.Agence France Presse, *Now China Says It May Own Okinawa, Too*, May 8, 2013.
2. Hancock, Tom, AFP, *China should 'reconsider' who owns Okinawa: academics*, May 8, 2013.
3. Chanel News Asia, *Chinese army general says Okinawa not Japan's*, May 15, 2013.
4. Rajagopalan, Megha, Reuters, *China criticizes Japan's protest over question of Okinawa sovereignty*, May 9, 2013.
5. Ryall, Julian, and Chan, Minnie, South China Morning Post, *China*

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### Security

Once again, the US is under attack from sources overseas. For instance, one report indicates hackers in the Middle East and North Africa planned "Operation USA", targeting US web sites starting on May 7 [1].

Zero date attacks are again in the news. For instance, a new Internet Explorer exploit targets nuclear researchers [2]. Additionally,

the Microsoft patch Tuesday addressed 33 vulnerabilities, including an IE version 8 zero date issue [3].

Meanwhile, China continues to attack US computers and networks. Case in point, for the first time, a Pentagon report directly accuses China of cyber spying on US government systems [4].

In what could be direct

challenge to China, several Senators have introduced a bill to flag products from countries benefiting from cyber espionage against US companies [5].

It is often difficult to ascertain the full impact of cyber attacks directed against US banks. However, in New York, Federal prosecutors charged seven cyber-

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#### Special points of interest:

- The Dow closes above 15,000
- 13<sup>th</sup> bank shuttered
- FBI gives cyber attack briefing to bankers
- China stakes a claim to Okinawa

## Security

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criminals with stealing \$45 million [6]. What's more, there are clues to the seriousness of the problem. Case in point, one report indicates the FBI granted access to US bank executives so they could attend a classified cyber attack video teleconference hosted at 40 field offices [7]. This highlights a risk to US financial institutions.

1. Waterman, Shaun, Washington Times, *Tag team: Jihadis, hackers join forces to launch cyberattacks*

on United States, May 6, 2013.

2. Weitzenkorn, Ben, Tech News Daily, *Internet Explorer Zero-Day Attack Targets Nuclear Researchers*, May 5, 2013.
3. Kaplan, Dan, SC Magazine, *Microsoft mends 33 vulnerabilities in Patch Tuesday release, including Internet Explorer 8 zero-day*, May 14 2013.
4. Ratnam, Gopal, Bloomberg, *Pentagon Accuses China of Cyberspying on U.S. Government*, May 7,

2013.

5. Kaplan, Dan, SC Magazine, *Senators introduce bill that would flag countries, products that benefit from espionage*, May 8, 2013.
6. AP, *Feds in NYC say cyber gang stole \$45 million*, May 9, 2013.
7. Menn, Joseph, Reuters, *FBI says more cooperation with banks key to probe of cyber attacks*, May 13, 2013.

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(Continued from page 1)

*brushes off Japan's Okinawa protest as experts call it move to seize Diaoyus*, May 10, 2013.

6. Minnick, Wendell, Defense News, *China-Japan Island Dispute Could Become Flashpoint*, May 4, 2013.

7. Hung, Joe, The China Post, *Uncle Sam, Japan and the nuclear question*, May 6, 2013.
8. Gertz, Bill, Washington Free Beacon, *China Conducts Test of New Anti-Satellite Missile*, May 14, 2013.

9. Gertz, Bill, Washington Free Beacon, *Red China Power*, May 6, 2013.
10. Sang-Hun, Choe, New York Times, *S. Korea Says North Launches 3 Short-Range Missiles*, May 18, 2013.

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*How do you tell a communist? Well, it's someone who reads Marx and Lenin. And how do you tell an anti-Communist? It's someone who understands Marx and Lenin—Ronald Reagan*

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Israel's military struck targets inside of Syria resulting in large secondary explosions [1]. Indications are the targets of the attacks were Iranian missiles that were in the process of being handed over to Hezbollah terrorists [2]. By one estimate, at least 42 Syrian soldiers were killed in the attacks [3]. Expectedly, both China and Russia complained of the attacks [4]. What's more, Hezbollah chief Sheikh Hassan Nasrallah claims Syria will provide his organization with advanced weapons [5]. Elsewhere, the ground fighting between the Syrian military and rebels continues. For example, one report indicates rebels shot down a Syrian helicopter killing eight people onboard [6].

In other news, the discussion on chemical weapons continues. For example, the President of the US has indicated there is evidence of chemical weapons use by the Syrian government [7]. However, any response must consider the advanced weapons Syria is receiving from other countries. Case in point, Russia has provided Syria with advanced 180-mile range anti-ship mis-

siles [8]. In turn, Israel expressed concern that the new Russian supplied missiles could end up in the hands of terrorists [9].

One risk in the expanding war is that terrorist will gain yet another foothold. For example, the anti-Western Jabhat al-Nusra, the al-Qaeda off-shoot is now controlling Syrian oil wells estimated at producing 380,000 barrels per day [10].

1. Laub, Karin, and Federman, Josef, USA Today/AP, *Israeli warplanes strike Syria in escalation*, May 5, 2013.
2. Sherwood, Harriet, the Guardian (UK), *Israel: Air strikes were 'against Hezbollah and not the Syrian regime'*, May 6, 2013.
3. Pleitgen, Frederik, et. al., CNN, *42 Syrian soldiers dead in reported Israeli strike, opposition group says*, May 6, 2013.
4. Anishchuk, Alexei, et. al., Reuters, *Russia, China express alarm after Israel hits Syria*, May 6, 2013.
5. Barbara Surk, USA Today/AP, *Hezbollah chief: Syria to supply strategic weapons*, May 9, 2013.
6. Barnard, Anne, and Cowell, Alan, New York Times, *Syrian Rebels Say They Downed Helicopter Amid New Claims on Chemical Weapons*, May 6, 2013.
7. BBC News, *US has seen Syria chemical weapons evidence, says Obama*, May 16, 2013.
8. BBC News, *Syria crisis: Russia 'sends sophisticated weapons'*, May 17, 2013.
9. The Telegraph (UK), *Al-Qaeda's Syrian wing takes over the oilfields once belonging to Assad*, May 18, 2013.
10. Lubell, Maayan, Reuters, *Israel warns against Russian arms supply to Syria*, May 18, 2013.

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*Thus, what is of supreme importance in war is to attack the enemy's strategy—Sun Tzu*

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## Economy

The US is in a position to further reduce dependence on overseas oil. For example, recent oil and gas discoveries, if allowed to be recovered, could result in the US becoming the world's largest producer of these energy sources [1].

One of the leading economic indicators of what is to come is the stock market. With this in mind, the Dow reached a record high above 15,000 for the first time [2].

For the week ending May 4, the number of first time unemployment claims, reported by the Labor Department, fell to 323,000 [3]. However, for the week ending May 11, the number rose to 360,000 first time claims [4].

Meanwhile, China's economy continues to grow. For exam-

ple, April auto sales were up 13% from a year earlier [5]. In contrast, Europe continues to struggle through its longest recession to date [6].

Bank regulators continued shuttering financial institution. On May 10, the following were closed: The Sunrise Bank in Georgia and the Pisgah Community Bank in North Carolina [7]. Then on May 14, the Central Arizona Bank became the 13<sup>th</sup> financial institution shuttled this year [8].

1. Raum, Tom, AP, *New jobs and energy gains helping lift US economy*, May 6, 2013.
2. Pylas, Pan, AP, *Markets remain buoyant as records tumble*, May 8, 2013.
3. Kowalski, Alex, Bloomberg, *Jobless Claims in U.S.*

*Unexpectedly Fall to Five-Year Low*, May 9, 2013.

4. Davidson, Paul, USA Today, *Claims for jobless benefits rise sharply*, May 16, 2013.
5. AP, *China's April auto sales up 13% from year ago*, May 9, 2013.
6. Gorondi, Pablo, AP, *Oil Falls Below \$94 as European Recession Drags On*, May 15, 2013.
7. Sparshott, Jeffrey, and Jones, Kristin, Wall Street Journal, *Regulators Close Two Banks*, May 10, 2013.
8. AP/Miami Herald, *FDIC shuts small bank in Arizona*, May 14, 2013.

## China's Pollution

In past newsletters, we have detailed how bad the air pollution in China is. Because of the poor air quality, travelers to Beijing are now encouraged to bring a gas mask as a travel accessory [1].

To appreciate the challenges associated with China's air pollution we can look at air quality violations. For instance,

one of China's largest power companies, in order to save money, turned off its coal fired plant scrubbers thereby causing sulfur dioxide pollution soar while concurrently falsifying records [2].

1. Larson, Christina, Business Week, *New Travel Accessory for Beijing: Gas Masks*, May 6, 2013.

2. Mufson, Steven, Washington Post, *China wrestles with stubborn air polluters*, May 10, 2013.

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*The first casualty when  
war comes is truth—Hiram  
Johnson*

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