

Special Report

CHINA DOLL

★ Katrina Leung was a temptress, beguiled by the world of intrigue, but was she **an agent of influence** for Beijing, as prosecutors now charge?

BY CHITRA RAGAVAN

When I. C. Smith and Bill Cleveland stepped off the plane in Beijing on Nov. 30, 1990, nothing prepared them for the reception they were about to receive. The two FBI agents had been dispatched to assess security at the American Embassy, a low-profile assignment. But from the moment they arrived, Smith and Cleveland were placed under heavy surveillance by the Ministry of State Security, China's KGB. "They were covering me," Smith recalls, "like a blanket."

It was as if the MSS *knew* who the agents were. Smith finally understood why five months later, when Cleveland called him from San Francisco. "I.C.," he said, "they knew we were coming, even before we left." Cleveland

explained: A Chinese-American woman working as an intelligence asset for an FBI agent in Los Angeles had tipped off the MSS about their trip. Smith was dumbfounded. But he put the matter aside, assuming the FBI would can the woman for the security breach: "I assumed she would be closed as a source."

She wasn't. It was not until more than 12 years later, in fact—in April of this year—that the source of the leak was finally arrested. According to the FBI, she is Katrina Leung, a prominent Chinese-American bookstore owner, business consultant, and Republican fundraiser. The FBI now says that Leung, in addition to her many other accomplishments, was a top-drawer Chinese spy. A key source of the secrets Leung allegedly purveyed to her Chinese handlers, prosecutors allege, was the Los Angeles FBI agent who recruited Leung in 1982 and handled her until he retired in November



After her **day in court** in Los Angeles last month, Leung exits, calm but beaming.

2000. That would be James Smith, known to friends and colleagues as “J.J.” The FBI has arrested Smith, 59, a supervisory special agent on a Chinese counterespionage squad in L.A., saying he had an intimate and unauthorized relationship with Leung, 49, for more than 18 years. For at least 12 of those years, according to court papers, Leung stole classified intelligence information from Smith and passed it on to her handlers in China. Complicating matters further, the FBI alleges that Leung also conducted at least a seven-year affair with Cleveland. Now 60, Cleveland was a supervisory special agent who worked out of the bureau’s San Francisco field office, on another Chinese counterespionage squad. Cleveland has not been charged and is cooperating with the Leung investigation. After he retired in 1993, Cleveland became head of security at Lawrence Livermore National Laboratory. He resigned that job

in April after the FBI notified the lab that Cleveland was under investigation and the lab revoked his clearances. Lab spokeswoman Susan Houghton says a “ cursory ” investigation shows “ no cause for concern ” that Cleveland compromised nuclear secrets. The FBI has made similar assurances to the lab.

As intelligence debacles go, they don’t get much messier than this. But even with its many salacious angles, the Leung case captured scant public attention last spring as the war with Iraq loomed closer. *U.S. News* has conducted an extensive review of the case since then, examining hundreds of pages of court records and interviewing more than a dozen current and former counterintelligence experts. The review reveals a systemic failure of security procedures and a stunningly free-and-easy pattern of access by Leung to some of the nation’s most highly secret intelligence operations. The

security breaches were also at least partly the result, sources say, of the FBI's failure to commit anywhere near the same kinds of resources to its China counterintelligence program as it did to its Soviet, and then Russian, counterpart. FBI managers compounded those problems, government officials say, by failing to ensure that the bureau stopped using Leung as an asset in April 1991, after it learned that she had tipped Chinese agents to the Beijing visit by the two FBI agents.

"Reliable." That's when Cleveland listened to an audiotape provided by another Chinese asset and recognized Leung's voice as she told the Chinese about his trip, according to court records. He alerted J. J. Smith, who flew to San Francisco to discuss the matter and became "visibly upset." Both men flew to Washington to broach the issue with officials at FBI headquarters. Neither man, however, appears to have told the FBI that he was having sexual relations with Leung. Indeed, FBI sources say, neither knew of the other's relationship with her. Smith returned to Los Angeles and spoke with Leung about her contacts with the MSS. She admitted it, prosecutors say, adding that the Chinese *knew* she was an FBI asset. Smith suggested that Leung take a polygraph, but she declined. He didn't press the issue. Cleveland, court records say, "relied" on Smith to resolve the problem; Smith assured him he had. In fact, he did nothing of the kind. Instead, Smith made Leung apologize to him and Cleveland, then filed the first of at least 19 evaluation reports stating that Leung was "reliable" and that she had passed a polygraph.

Both Smith and Leung have pleaded not guilty to the charges lodged against them. Both are free on bail, pending trial next year. Prosecutors preparing the case say Leung has "a long history of lies and deception," noting that the FBI paid her over \$500,000 for her information-gathering services. One of Leung's attorneys, Janet Levine, counters that Leung never passed anything on to the MSS "without the complicity and knowledge of this FBI." She said the FBI fed Leung documents to give the MSS because the bureau had deliberately set her up as a double agent. "We are confident," Levine says, "that the evidence will show that Katrina Leung is and has been a patriotic, loyal American." After her arrest, Leung's family issued an angry two-page statement accusing the FBI of a blatant "double standard." The statement said: "Their people in Washington are orchestrating things to protect their own," adding that "they blame the nonagent and the foreign-born, especially the Asian, especially the woman."

Given the nature of the allegations, the Leung case is apt to set a new record for finger-pointing. "It's a sad day for the FBI," the bureau's director, Robert Mueller, said after the arrests. "Smith not only betrayed the trust the FBI placed in him; he betrayed the American

people he was sworn to protect." Smith's attorney, Brian Sun, told *U.S. News* that his client "had every reason to believe that [Leung] was a valuable asset to the United States based upon the information and the services she provided."

Mueller did not mention the *other* FBI agent, Cleveland, who was involved with Leung. The fact that he has thus far avoided any legal repercussions as



A SPY WHO CHANGED HISTORY

All he ever wanted was for U.S. and Chinese leaders to get along; that's what Chinese spy-master Larry Wu-Tai Chin claimed was his *raison d'être* for almost 40 years of spying for China. Chin, a CIA translator, analyst, and document control officer, may have been the most damaging anti-U.S. spy ever; he sold bushels of U.S. secrets to China, altering the course of history. The Chinese government knew about President

Richard Nixon's secret decision to re-establish diplomatic relations two years before Nixon's historic visit to China, and it leveraged key concessions. The North Vietnamese likely benefited from the secrets that China forwarded from Chin during the Vietnam War.

Chin's spying career began in 1948 when he joined the U.S. Consulate in Shanghai as an interpreter, after a stint at a U.S. military mission in southern China. A former

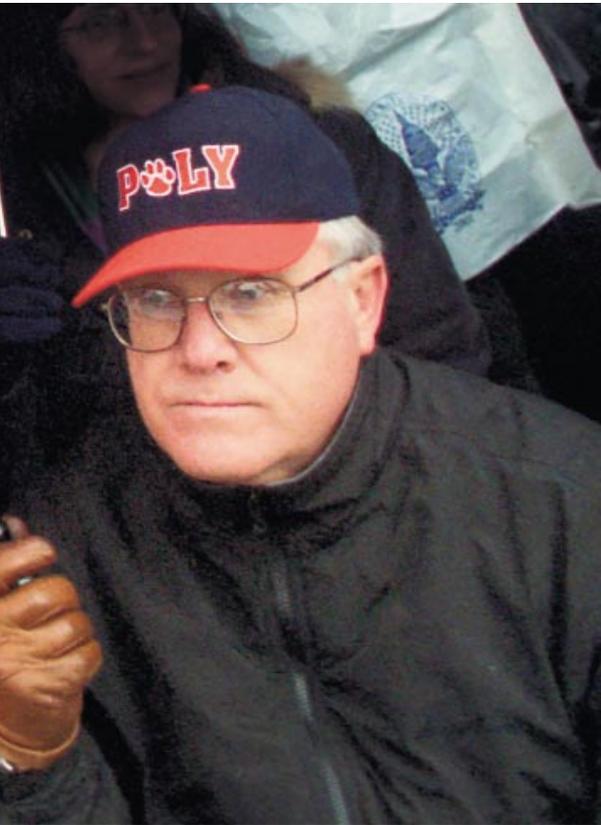


Wu-Tai Chin (left), heading to court

mission roommate introduced Chin to a Communist official, who recruited him. In 1952, the State Depart-

ment asked Chin to help interrogate Chinese prisoners for the U.S.-allied forces in Korea. Chin promptly sold the Chinese government the names of Chinese prisoners who were anti-Communists. China responded by demanding the forced repatriation of all Chinese prisoners as part of negotiations to halt the fighting. Experts believe Chin's treachery delayed the end of the Korean War for more than a year.

Also in 1952, Chin joined the CIA's Foreign Broadcast



Leung and J. J. Smith watch George W. Bush's inaugural parade on Washington's Pennsylvania Avenue from a reviewing stand for VIPs.

evidence of deception. When Cleveland was in charge of security at Lawrence Livermore, however, he was polygraphed and asked, among other things, whether he had had any contacts with foreign agents. Cleveland, sources say, aced the test. Prosecutors say Cleveland lied repeatedly to FBI agents in interviews this year about the length of his affair with Leung; it was not until his fourth interview that Cleveland admitted the relationship had gone on and off for at least seven years—not three, as he first stated.

Circus. The feds, evidently, are in a bit of jam with Cleveland. They found no documents in Leung's safe that trace back to him. And they may need him as a potential witness, albeit one with some major credibility issues. "They think they need him to get Smith or Leung," a counterintelligence source says. Whatever the reasons for the government's decisions to date, "there's no doubt," says a veteran counterintelligence official, "that the brotherhood is trying to help Cleveland and throwing Smith to the wolves." The Justice Department's inspector general, meanwhile, sweeping up behind the elephants in this three-ring circus, is examining the seemingly endless series of

management failures and will, eventually, issue a report.

The Leung saga may offer the trappings of a dime store spy thriller, but beneath the sordid details is one very sobering prospect: Katrina Leung and her two G-man lovers might just possibly have blown two decades of intelligence work on China sky-high. The mandatory damage assessments are already underway, nearly a dozen in all, by the FBI and a handful of other alphabet-soup agencies. Among the classified documents FBI agents found in Leung's home was a journal written in Chinese with English words interspersed, such as "military double agent," "rocket knowledge," and "U.S. Airforce." In court papers, FBI Special Agent Randall Thomas explained that the FBI conducts "double agent" operations with the U.S. military and Air Force to assess the capabilities of foreign militaries like China's. In such operations, the United States "feeds" a knowledgeable military member to the MSS and controls his or her actions. Thomas quoted a senior FBI official, Bruce Carlson, as saying the bureau used information provided by Leung to deter China's efforts to steal U.S. military technology. If Leung's "information" actually came from Chinese security agencies, the entire FBI exercise was, in all probability, a sham. "The FBI must now reassess all of its actions and intelligence analysis based on her reporting," said Carlson, adding that Leung may have "thwarted or compro-

a result of the relationship doesn't sit well with some in Washington's close-knit counterintelligence community. A senior FBI official says that "there's no indication" Cleveland gave Leung secrets, adding that the relationship was "strictly sexual," and confirmed that Cleveland recently submitted to a polygraph exam about the nature of his involvement with Leung, which found no

intelligence source says. Whatever the reasons for the government's decisions to date, "there's no doubt," says a veteran counterintelligence official, "that the brotherhood is trying to help Cleveland and throwing Smith to the wolves." The Justice Department's inspector general, meanwhile, sweeping up behind the elephants in this three-ring circus, is examining the seemingly endless series of

Information Service office in Okinawa and soon hopped to the FBIS in California and then in Virginia as a case officer, with access to CIA headquarters in nearby Langley. Chin sold super-sensitive National Intelligence Estimates and analyses on China and Southeast Asia to his handlers in London, Hong Kong, and Toronto. Since Chin also translated all the documents stolen by CIA spies in China, he helped the Chinese plug those leaks. "He was extraordinarily devastating," says former FBI

Special Agent I. C. Smith. "More people lost their lives because of his treachery than [because of] Aldrich Ames and Robert Hanssen."

A gambler and womanizer, Chin made a fortune by putting some of the \$1 million China paid him into real estate. The CIA honored him for distinguished service, kept him on as a consultant after he retired in 1981 at age 63, and pestered him to return full time.

Chin was arrested in 1985, after U.S. intelligence received sketchy information from a Chinese source,

who later defected to the States, that there was a spy so prolific it took the Chinese two months to translate each batch of secrets.

To prepare for Chin's trial, prosecutor Joseph Aronica asked the CIA to prepare a color-coded chart of every major development in U.S.-Sino relations between 1945 and 1985, onto which he transposed Chin's movements and access to classified documents. "He admitted doing it, was proud of it," says Aronica, now an attorney with Duane Morris. Chin committed suicide in his jail

cell in February 1986—just two weeks after his conviction on 17 counts of espionage, conspiracy, and tax evasion—while awaiting sentencing. Chin slid a clean brown trash bag over his head, tied it with a shoelace from newly ordered high-tops, crossed his arms over his chest, lay down, and quietly asphyxiated himself. The U.S. government had no apparent desire to pursue Chin's legacy further. "As soon as [Chin] suffocated himself," says Smith, "it closed the door on the scandal." —C.R.

mised” many other national security programs by passing on to her Chinese handlers information she obtained about them. The other side of the coin, sources say, is that whatever disinformation Leung fed her FBI lovers could have been passed up the national security chain of command, perhaps even to the White House. “Every double-agent operation we ran,” says Larry Wortzel, a retired military counterintelligence official and longtime China hand, “might have been compromised and a failure.”

Unlike espionage cases involving at-the-office traitors like the CIA’s Aldrich Ames and the FBI’s Robert Hanssen, the Leung case raises some unusually

operate against a bull fiddle.”

Others in the U.S. intelligence community aren’t quite so sure. These are among the principal findings of the *U.S. News* examination of the case:

- J. J. Smith frequently briefed an ad hoc China operations group consisting of the CIA, the Defense Intelligence Agency (DIA), the State Department, the National Security Agency (NSA), and other agencies. Any disinformation Leung provided to her FBI handlers would have permeated the entire intelligence community, numerous officials say. Smith may also have been present at CIA station liaison meetings with many of these same agencies, officials

never had a viable operation.”

The implications of such a conclusion are still sinking in. Current and former government officials say the entire roster of U.S. intelligence efforts for all of Asia outside the Soviet Union over the past 20 years may have been compromised, as well as operations of allies like Britain, Canada, Australia, New Zealand, and Taiwan.

- Leung may have jeopardized the identities of U.S. intelligence and counterintelligence agents because she guest-lectured at the FBI’s academy in Quantico, Va. She also had occasion to meet case officers from the CIA, DIA, NSA, and other intelligence agencies who attended FBI training programs. “There’s concern,” a senior FBI official says, as to what Leung may have told MSS from these meetings. “How we do things, how we report things, and what we’re interested in,” this official said, “allows them to build countermeasures to protect that information.”

U.S. News has learned that one Quantico talk took place on May 20, 1993—two years after Cleveland and Smith found out about Leung’s MSS contacts. Leung and Smith, sources say, were both invited to speak to Chinese counterintelligence agents from the FBI, the Pentagon, and other agencies. The topic: how to conduct double-agent operations. The classified meeting was videotaped. “There they are talking about it in a room full of people,” a source exclaimed, “asking about how it’s done.”

- Leung’s task for the FBI, according to FBI agent Thomas, was to *pretend* to be a Chinese asset, known as a “controlled agent,” providing her MSS handler only with information Smith had authorized. *U.S. News* has learned that the FBI is not discounting the possibility that Leung was already a *real* MSS asset when the FBI recruited her, not a pretend one, which would make her not a double agent but a triple agent or “triple cross.”

Despite the potential breaches in national security, the FBI is confronting the possibility that Smith and Leung could walk away with relatively light punishment, if they are convicted. Indeed, sources say, Smith may be in greater legal jeopardy than Leung, because he was the custodian of the classified documents and allegedly breached the government’s trust. Neither Smith nor Leung has been charged



Chinese police stand guard outside the U.S. Embassy in Beijing, China refuses to allow U.S. marines to protect the outside of the compound, as they do at other U.S. embassies.

delicate issues. It doesn’t involve just classified documents that may have been stuffed in a briefcase and smuggled home but secrets that may have been spilled during the nearly 20 years of pillow talk Leung allegedly conducted with Smith and the seven years’ worth with Cleveland. The possible ramifications have sent intelligence veterans into fits of apoplexy. “This is just perfectly ghastly,” says James Lilley, former ambassador to China. “These two FBI case officers were fools. And she made a monkey out of them and fed them a lot of tainted information, which they fed straight into the White House.” Lilley, once the CIA’s station chief in Beijing, doesn’t believe that Cleveland and Smith, despite their lapses, did all that much damage. “My own sense,” he says, “is these guys couldn’t

say. That’s because, by law, the CIA and the military intelligence services must coordinate all domestic intelligence-gathering operations, such as recruiting assets to send abroad, with the FBI, in the event the target of such operations involves a U.S. citizen. Because of his supervisory status and China expertise, Smith would have been present at many such liaison meetings and could have knowingly or inadvertently provided Leung with information about CIA and military operations, sources, and methods. Wortzel says the damage from the Leung case could match the compromising of U.S. agents and operations during the Cold War. “If we are ever able to get access to Chinese records,” says Wortzel, now vice president of the Heritage Foundation, “this will compare to East Germany, where we found we

with espionage on behalf of a foreign power, which can carry the death penalty. Smith faces five counts related to having improper sexual relations, gross negligence, and filing false reports about Leung's reliability. Leung is charged with five counts of stealing and copying classified documents. "It's a clear flag," says a counterintelligence veteran, that "they have no evidence of espionage."

Chump. Guilty verdicts, in other words, are hardly a given. Chances of "flipping" Smith—persuading him to implicate Leung and testify against her, sources say, also are "highly unlikely" because it would require Smith to admit he was a chump, not a Lothario, and accept substantial jail time. "The saying 'If nobody talks, everybody walks' is true in spades in this case," says the counterintelligence veteran. "If Smith and Leung don't talk, there's a better than even chance they both will not go to jail." If Smith *were* to plead guilty or be convicted, Leung's attorneys, undoubtedly, would try to tear him apart on the witness stand, and a jury might not believe him. Leung's attorneys are unlikely to spare Cleveland, either. Prosecutors say Leung continued to provide Cleveland information after they became involved and met Cleveland "many times" in Los Angeles and San Francisco, "often in the company of Smith." FBI officials have looked at the possibility of collusion between Cleveland and Smith, but officials say they have found no evidence to support such a conclusion. "Katrina is in the catbird seat," says a veteran counterintelligence official. "An L.A. jury with a case as dirty as this would have a tough time coming out with a unanimous verdict because the government looks worse than Leung." FBI Director Mueller has ordered an examination of the bureau's entire China program, all FBI assets, and the entire human intelligence program.

Mueller was confronted with a host of challenges in deciding how to handle the Smith and Leung cases, not all of them evidentiary. Because the bureau's internal-affairs unit is under investigation in an unrelated matter, Mueller had to reach out to Justice Department lawyers for assistance on the cases. Despite its many difficulties, however, Mueller and Attorney General John Ashcroft, both of whom assumed direct control of the cases, decided they had no choice but to prosecute. "Courageous people made courageous decisions," said a senior FBI official. "I think it's important to understand that we can take a direct look at ourselves and do the right thing, no mat-



ter how hard it is." Even so, the scandal is proving so vexing, says one veteran counterintelligence official, that "even Mueller wants it to go away. But this is going to be yet another turd floating in the FBI's punch bowl."

The investigation of Leung began in November 2000, after a CIA analyst on loan to FBI headquarters noticed some anomalies in Leung's asset file. A naturalized citizen, Leung, in many ways, is an enigmatic figure—highly personable, those who know her say, but hardly the type of person to carry on extramarital affairs, much less engage in international derring-do. Her personal background, the FBI contends, is unclear, because of the many allegedly false statements she made to immigration officials, including on her 1982 citizenship

application form. Evidently, she was born Che Wen Ying in Guangzhou, China, and came to Hong Kong as a toddler with her aunt, Susan Chin, who raised her like a mother but whom Leung reportedly has seen only once in 20 years. Leung met her husband, Kam, at Cornell University, where he obtained a Ph.D. in biochemistry. Leung entered Cornell as a graduate student in engineering but later switched to home economics. Leung told the *Los Angeles Times* in 1997 that her connections to Chinese officials dated to 1972, the year President Nixon made his historic visit to China. She had just graduated from high school. In New York, Leung said, she helped employees at China's newly opened United Nations mission. "China remembers old friends," she told the



★ **Soldiers marching in Tiananmen Square in 2001; intelligence experts complain that the United States has sent mixed messages to China.**

ing both intelligence services.” Smith, according to Thomas, acknowledged that he “probably told Leung too much in the course of operating her as an asset.” He and his wife of more than 30 years, Gail, live with their son, Kelly, 24, just north of Los Angeles. A burly, handsome man, Smith served as an Army intelligence officer in Vietnam. Like Cleveland, who speaks fluent Mandarin and Cantonese, Smith was fascinated by China, so steeped in the country’s culture and history that he was nominated by FBI brass for the prestigious National Intelligence Medal of Achievement. He received it shortly before he retired—for his handling of Leung. During one of several interviews by FBI agents, Smith denied having a sexual affair with Leung, unaware that FBI surveillance cameras had captured the two having sex in a Los Angeles hotel room.

Leung’s double life appears to have begun and ended with the most mundane of events—a baggage search. Traveling to China in April 1990 as a “controlled” asset of the FBI, she was met by her MSS handler, “Mao.” He covertly searched Leung’s bags and turned up notes from Smith describing a Chinese individual who had defected to the United States. Mao found the notes to be far more comprehensive than the information Leung had given him on the individual. Leung, according to court papers, admitted that she was working for the FBI. She even had an FBI code name, she said—“Parlor Maid.” Nonplused, Mao demanded that Leung switch loyalties. She agreed, according to court papers, and was promptly given another code name, “Luo Zhongshan.” If Leung had truly begun her secret life in the employ of the MSS, she had now, if the allegations in the court documents are to be believed, completed the triple cross—working first for the MSS, then the FBI and, finally, for the MSS again.

In November 2002, when Leung traveled to China, it was the FBI’s turn to search her bags, as part of a surveillance. They found a faxed cover page from J. J. Smith and six photographs of current and retired FBI agents. Smith, the court papers say, gave Leung the photographs after he retired. When FBI agents searched her bags on her return to the United States, the photographs were gone.

Circumstantial evidence? Perhaps, but in videotaped interviews, Special Agent Thomas wrote in court papers, Leung

has “generally admitted to surreptitiously taking and copying documents from Smith.” Leung allegedly stole the documents from Smith’s briefcase after he “debriefed” her in her home, then stepped away to use the restroom or to smoke outside. Leung told the FBI, according to Thomas, that “although Smith sometimes allowed her to review classified documents, he never permitted her to retain them.”

Smith recruited Leung in 1982, when she was just 28, the same year she filed papers to become a naturalized U.S. citizen. *U.S. News* has learned that the FBI helped Leung get her citizenship. Sources say Leung attracted the FBI’s “distant eyes” in the late 1970s, when the bureau was trying to track and recruit Chinese students who came to the United States after normalization. When Leung moved to Los Angeles, sources say, Smith interviewed her as part of an investigation into whether a Lawrence Livermore lab physicist sold neutron bomb secrets to China. Smith passed Leung on to Cleveland, who was leading the inquiry.

Party time. The relationship between Smith and Leung, by any measure, was unusual. Smith decided early on in his handling of Leung “to appear with her frequently and publicly as an FBI agent,” Special Agent Thomas wrote. “She came to his retirement party, for God’s sake,” says I. C. Smith. “They were seen at parades. These are things you just don’t do.”

Forget about appearances—the security implications were huge. J. J. Smith permitted Leung to videotape his retirement party, according to court records, capturing for posterity the faces of the FBI agents and CIA officers there. Smith was the only agent in the L.A. field office to check out classified documents overnight between 1997 and 2000, an FBI clerk told Thomas. And Smith and Leung met at L.A. hotels. They also met twice in Hong Kong and once in London. “China has an active intelligence operation in London,” says Wortzel, “and everything in Hong Kong is completely penetrated by the PRC”—the People’s Republic of China.

Numbers help to tell the story. Leung had 2,100 contacts with Chinese officials over 20 years. She made 71 overseas trips and failed to tell the FBI about 15 of them, including the two to Hong Kong after Smith retired. She also vacationed with Smith, including one trip

Times. “All these people I entertained became big shots.”

Prompted by questions raised by the CIA man, FBI officials interviewed J. J. Smith about Leung. He assured his inquisitors Leung was sound. FBI officials won’t say why, but in December 2001, the bureau obtained a surveillance warrant on Leung. By April 2002, the inquiry had expanded to include Smith. Months later, FBI agents obtained a trove of classified documents from Leung. They also interviewed Smith, Leung, and Cleveland. All three lied repeatedly during the interviews, Special Agent Thomas alleged in court documents.

Eventually, however, they cracked. Leung, Thomas said, admitted that she had “withheld information from both the FBI and the MSS over the years, deceiv-

DANCING IN THE DARK

The FBI's Chinese counterintelligence efforts have long been the stepchild of delicate political concerns, some veteran China hands say. That was abundantly clear back in November 1990, when I. C. Smith and Bill Cleveland made their fateful trip to Beijing. "I considered the total embassy to be compromised," says Smith. "It was just a security nightmare."

Smith would not divulge specifics. But intelligence sources tell *U.S. News* that there were tunnels under the entire complex. And the U.S. marines guarding the facility reported that overhead security cameras on sensitive floors regularly stopped working. But Washington ignored Smith's efforts to end the security breaches, he says.



Technicians steady the tail cone of the U.S. Navy spy plane forced down by Chinese fighter/interceptors in April 2001.

"The single biggest impediment to a truly effective counterintelligence program," says Smith, "has been politics."

"A different standard."

On military issues, though, the United States has taken a hard line against China since the Tiananmen Square killings, im-

posing a ban on the sale of U.S. technology to China. But appearances aren't quite what they seem sometimes. When Chinese fighter jets deliberately forced a U.S. Navy surveillance plane down on Hainan Island, Washington responded gingerly.

"We did not want to go

into a spiral that would destabilize all bilateral relations," says retired military counterintelligence official Larry Wortzel.

The FBI's counterintelligence program reflects that mind-set. "The China program was . . . held to a different standard," says Smith. "We couldn't be as aggressive, so we had to be more innovative."

The lack of an intelligence databank, and China's second-tier status among FBI brass, made things difficult. "They didn't understand Chinese intelligence gathering," Smith says. "If it wasn't SWAT teams jumping out of planes, they didn't care."

Beijing had its own learning curve, dating to 1980. Its U.S.-based operatives argued that Jimmy Carter would be re-elected. When Ronald Reagan won, Beijing scrambled to field a new team of spies in hopes of garnering better intelligence. —C.R.

to Hawaii. Leung told the FBI that China gave her \$100,000 because "President Yang Shangkun liked me." But that was peanuts compared with what the FBI paid her—a staggering \$1.7 million. "Those kinds of payments are really for me, almost unbelievable," says retired FBI official Thomas Parker. "I've made huge payments to criminal sources, Mafia guys, but nothing ever added up to that." Seventy percent of the \$1.7 million was for Leung's operating expenses—nearly \$1.2 million, all tax exempt. She got another \$521,000 for passing on information, but she failed to pay any tax on it. Moans one counterintelligence official: "They were paying for her parties." Sources say that it's likely that with so much "blue-slipping," as such cash transactions are called, the FBI doesn't have a full accounting.

Counting the cost. On balance, some espionage experts say, Leung probably didn't cause as much damage as Ames, Hanssen, or Larry Wu-Tai Chin, a former CIA translator who spied on the United States for nearly four decades before being convicted and taking his own

life (box, Page 40). Unlike Ames, Hanssen, and Chin, there is no evidence at all that Leung's actions jeopardized the lives of American espionage assets working against China. But Wortzel and other experts say the damage could be colossal, principally because of the extraordinary access J. J. Smith and Bill Cleveland had to some of the nation's most precious intelligence secrets. As supervisory special agents, Smith and Cleveland were privy to the entire gamut of FBI China operations and led major China investigations. All must now be re-examined. Among the most critical issues: Did Leung play any role in the botched espionage investigation of Los Alamos nuclear scientist Wen Ho Lee or in its largely inconclusive investigation of Chinese government campaign contributions to the Clinton-Gore re-election campaign in 1996? "We may never know what we lost," says Wortzel. "What we will never know is if what we got was fed to us and created in China to mislead us, or was real. . . . The question is, Who was controlling whom?"

If Leung had her way, the FBI contends,

no one would ever know the answer to that question. In December of last year, four months before her arrest, Leung sat for an interview with the FBI. Afterward, Special Agent Peter Duerst walked her outside, with a hidden tape recorder running. "You know," Leung said, according to court papers, "I think the perfect way to end all this, if I just . . . disappear, not disappear, oh well, wouldn't that be nice? I mean if I don't exist, if I do not exist anymore? Would it help?"

Leung's attorneys contend that the FBI distorted Leung's remarks. Leung also told Duerst, during the official interview, that going to court was her only salvation: "Here I know at least I would have a so-called fair trial if we go on trial. And if you lock me up, at least you won't say, 'OK, I'm gonna have somebody murder you in prison.' OK?" Later, in the chat with Special Agent Duerst and several of his coinvestigators, Leung sought to reassure the agents: "And I'm not going anywhere, OK? I'm not going anywhere, period. I'll be right here." ●

With Carol Hook