

Sex, Lies and Espionage: Did a Professor Spy for the FBI?

by Daniel Golden

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Suspended University of South Florida Professor Dajin Peng stands at a park near the campus in Tampa, Florida, on Oct. 10, 2014. Photographer: Phelan M. Ebenhack/Bloomberg

(Bloomberg) -- When Dianne Mercurio first knocked on Dajin Peng's door, he was searching the Internet for the best way to kill himself. Mercurio, an FBI agent, had other ideas.

Mercurio knew Peng was in trouble with the University of South Florida, where he taught international business and ran the Confucius Institute, a cultural program funded by a Chinese government affiliate. USF had placed him on leave for alleged mismanagement there. As they strolled outside his apartment, she asked Peng, a Chinese-born U.S. citizen, to serve his adopted country.

The encounter, in April 2009, started Peng's recruitment. Soon Mercurio was pressing him to spy on his homeland and Tampa's Chinese community, and he reluctantly agreed, he said in interviews. In return, she worked to protect him as the university accused him of faking thousands of dollars in expenses, falsifying letters to help Chinese scholars get U.S. visas, and storing explicit images of bondage on a USF laptop. Peng denied any wrongdoing.

"Remember I am keeping you out of jail," Mercurio wrote to Peng in July 2010, "and it's difficult to put a price on freedom."

No one knew the value of freedom better than Peng, who found himself dragged once again into the powerful currents of politics and spycraft decades after his childhood was fractured by Mao's informers.

His story, winding from China to Princeton University to Tampa, shows how worried the U.S. government has been about growing Chinese involvement in American higher education, especially the activities of the Confucius Institutes. It also reveals the rise of another sometimes-unwanted influence on campus -- that of U.S. intelligence agencies keeping tabs on the rapidly growing ranks of foreign students and professors.

“There’s a real tension between what the FBI and CIA want to do and our valid and necessary international openness,” said Rice University President David Leebron, a member of the National Security Higher Education Advisory Board, created in 2005 to foster dialogue between intelligence agencies and academic leaders.

“But we don’t want to wake up one morning and find out that there are people on campus stealing our trade secrets or putting our country in danger,” he said, speaking generally rather than about the Peng case. “We might be uneasy bedfellows, but we’ve got to find an accommodation.”

Who is Dajin Peng?

Fluent in both Chinese and Japanese, Peng has connections in the highest reaches of China’s spy services, he said. At 57, he travels frequently between Tampa and his homeland, where he has several teaching posts. Fixed on his potential intelligence value, Mercurio even alarmed USF’s leadership by suggesting that the university consider establishing a campus in China. The FBI hoped to use it as a base for Peng’s spying, he said.

Ten U.S. colleges have set up China campuses, despite some professors’ fears that political discussions are restricted at these branches. Meanwhile, the ranks of Chinese students and faculty in the U.S. have swelled. About 275,000 students in the U.S. now come from China, a seven-fold increase in two decades. Government data show 150,000 Chinese-born scientists, social scientists and engineers worked at U.S. colleges in 2010, or 47 percent more than in 2003.

“Obviously we have a large number of foreign educators, foreign students coming into our country with a certain amount of information that can be gleaned from them,” said Steven Ibison, who was special agent in charge of the Federal Bureau of Investigation’s Tampa office during its courtship of Peng. “It wouldn’t be unusual that there are those folks here to gather intelligence on us.”

Ibison said he couldn’t recall the Peng case. Mercurio declined to comment, as did spokesmen for the bureau’s Tampa and national offices. The University of South Florida said it acted appropriately and wasn’t influenced by the FBI.

Peng, an associate professor, is currently serving his second suspension from USF. During 10 hours of interviews, he accused the FBI of destroying his career. He said the bureau encouraged disgruntled Confucius Institute staffers to initiate the university’s investigation of him, effectively forcing him to spy to keep his job.

“The FBI was involved, but everybody pretends it doesn’t happen,” he said.

It isn't easy to meet with Peng. "I am not allowed to use my office since I am in suspension," he e-mailed a reporter. "I do not think it is a good idea for us to meet at my apartment because I am afraid it might be tapped. For the same reason it is not good for us to pre-set a restaurant."

Instead, Peng suggested a rendezvous in a drugstore parking lot. There, he left his Toyota Sienna for the reporter's rental car. He gave directions to a Chinese restaurant run by a friend of his, who led the way to a sparse back room and closed the door. The waitress had to knock.

His eyes were reddened and puffy, perhaps from stress or jet lag. He had just returned from Beijing by way of Dubai and Capetown on vacation with his widowed 89-year-old father. Divorced, with two sons at elite U.S. universities, Peng poured out his story in fluent English, though occasionally confusing "his" with "hers."

Ten days after Peng was born, in 1958, his mother was forced to save her job as a high school administrator by divorcing his father, who had been sent to a labor camp for criticizing the government. The baby was given his mother's family name, Peng, and a first name, Dajin, which means Great Leap Forward, a politically correct tribute to the disastrous industrialization program introduced that year by Mao Zedong.

After his father's release from the camp, Peng and his mother visited him, sometimes in secret, even after authorities reprimanded her for it. In 1978, as Deng Xiaoping liberalized China, his parents remarried. They eventually would join Peng in the U.S.

His mother died in 2004. His father, who became a citizen, was killed in December when a car hit him near the USF campus. In a eulogy, Peng said his father had instilled in him a passion for world affairs -- and the ability to withstand pressure.

Peng graduated from Wuhan University and enrolled in what one college friend called the "Chinese spy university," the Institute of International Relations in Beijing. The school is run by China's Ministry of State Security and trains many MSS intelligence officers, according to national-security consulting firm Stratfor. Peng chose the institute for its academic quality and didn't become a spy, he said.

Even so, he said, "I know a lot of people in the ministry." The deputy director of American Research, Peng's department at the Beijing school, was Geng Huichang, now China's minister of state security. Peng worked briefly for a research institute run by the security ministry and then left for the U.S., where he earned another master's from the University of Akron and a doctorate from Princeton's Woodrow Wilson School of Public and International Affairs.

The FBI kept tabs on Institute of International Relations alumni and interviewed Peng at Akron, he said. At Princeton, Peng got to know agent Nicholas Abaid of the FBI's Trenton office. Through contacts at Princeton, Abaid said, he identified Chinese students who might become helpful informants and cultivated them. Peng and Abaid often had lunch together and talked whenever Peng was about to return to China.

Mercurio would later call Abaid to ask about Peng. She "was feeling her way in the Chinese field," Abaid said. Now retired, Abaid said he gleaned little of intelligence value from Peng.

When Abaid asked Peng to keep in touch with the FBI in Tampa, Peng politely refused, he said, hoping that he had seen the last of U.S. intelligence agencies.

Collision Course

Peng left Princeton for an up-and-coming state school with palm trees instead of ivy. Founded in 1956, USF has an enrollment of 48,400 on three campuses, including 3,300 foreign students. It prides itself on research and entrepreneurship and ranked among the top 15 universities worldwide from 2010 through 2013 in U.S. patents granted.

It is also one of 20 schools designated by the U.S. government as Intelligence Community Centers of Academic Excellence. USF has received \$1.5 million to train students for certificates in national and competitive intelligence, and placed 40 interns with security clearance at the U.S. State Department and Defense Intelligence Agency, said Walter Andrusyszyn, who runs the university's program.

USF has made "a healthy transition from a university that was anti-military, anti-intelligence to one that wants a partnership," said Andrusyszyn, a former State Department official who served on the White House's National Security Council.

Dianne Mercurio would test that partnership.

Mercurio grew up in Mauldin, South Carolina, where she was a member of her high school's cross-country, basketball and track teams, winning a state championship at 800 meters. She majored in psychology at the University of North Carolina, graduating in 1990. Delmer Howell, her high school track coach, said he wasn't surprised that Mercurio became an FBI agent. "She has the kind of intelligence and perseverance they're looking for," he said.

While Mercurio forged her FBI career, Peng became a U.S. citizen and earned tenure at USF. He offered courses in Japanese business, U.S.-China relations, and other topics, and won an award for outstanding teaching. He supplemented his USF salary by teaching mid-career business students in China, starting at Nankai University in 2005. He impressed students in both countries by rattling off the population of any country they named.

Through his Chinese connections, Peng helped USF establish the first Confucius Institute in Florida, with Nankai as its partner. Hanban, an affiliate of China's education ministry, operates almost 450 of the institutes worldwide, including more than 90 in the U.S., each with a partner school in China.

An instrument of "soft power," as former Chinese President Hu Jintao described them in a 2007 speech, the institutes, named for the revered philosopher, have become academic lightning rods. In June, the American Association of University Professors urged schools to break from the institutes unless they could gain control from Hanban over all academic matters. The faculty union said host schools allow the institutes "to advance a state agenda" by recruiting and controlling staff, choosing curriculum and restricting debate. Later, the University of Chicago and Pennsylvania State University cut ties with their Confucius centers.

Hanban officials in the U.S. and China didn't respond to e-mailed questions.

As director at USF, Peng choreographed the institute's opening ceremonies in 2008, attended by the Chinese consul general from Houston and featuring a lantern-festooned dinner, a magic act and a boat tour of Tampa Bay. Peng ramped up the institute's course offerings and opened a cultural center. Then, in 2009, his career came crashing down, and the FBI re-entered his life, not necessarily in that order.

Bondage

In March of that year, Xiaonong Zhang, then the institute's associate director, complained to the university that Peng was mismanaging the institute financially, requiring staff help with personal chores, and making inappropriate sexual advances and comments to visiting Nankai professor Baojing Sang and other women.

Shuhua Liu Kriesel, a former institute employee, also came forward. She accused Peng of "leaning against her or placing his arm around her while she was working," and of asking her to buy clothes, wash dishes and fix meals for him, according to internal USF reports describing the women's complaints. Like Zhang, she expressed concern about Peng's behavior toward Sang.

Peng said he treated employees well and that Kriesel, whom he had recently dismissed, and Zhang had grudges against him. He and Zhang had exchanged affectionate e-mails in 2007-2008, addressing each other as Big Sea Elephant and Little Sea Elephant. Then they had a falling-out, both said.

Reached in China, Baojing Sang said Peng was a caring supervisor and didn't bother her. She was unaware that Zhang and Kriesel named her in their complaints, she said.

Peng was placed on leave from the institute, with pay, pending investigation. The allegations were "actually a setup of the FBI" to "coerce me into spying for them," Peng wrote in a 2012 racial-discrimination complaint against the university.

The university dismissed the discrimination complaint. Senior Vice Provost Dwayne Smith said his office "has not one shred of evidence that the FBI was in contact with the two employees that brought forth concerns about Dr. Peng's conduct."

Zhang and Kriesel said they had no contact with the FBI. University phone logs obtained through a public-records request indicate the FBI's Mercurio was in touch with someone at USF before Kriesel and Zhang complained. They show 12 calls from Mercurio's mobile phone to one or more USF numbers in January and February 2009. The university redacted the numbers, citing an exemption in Florida public records law for disclosing anything that could identify a confidential informant.

At their first meeting, Mercurio told Peng she suspected the Confucius Institutes of spying, he said. Nationally, the FBI in 2009 was looking at that possibility, but decided it lacked grounds for a full investigation, according to a former federal official, who declined to be named because the inquiry never became public.

Peng told Mercurio she was wrong. China would never use the Confucius Institutes for spying, for fear that the U.S. would find out and shut them down, he said.

Mercurio went on to set up an e-mail address -- snowbox35@yahoo.com -- where Peng could contact her, he said. Although the address doesn't name her, she typically signed her e-mails "Dianne."

She asked Peng to reconnect with former schoolmates and colleagues at the institutes run by the Chinese security service so he could gather information about China's foreign-policy strategies, he said. She also wanted to know about his Chinese friends working in the U.S., Hong Kong and Macau, he said.

Those were potentially dangerous requests, and not just for Peng. Asking faculty to work undercover jeopardizes the access to research and the personal safety of all scholars, said James Millward, a professor and China historian at Georgetown University's School of Foreign Service.

Peng put Mercurio off, saying he wanted to wait for the university's verdict -- the first in a series of what he described as delaying tactics.

His reluctance to spy on China was at least in part practical. "I would rather rot in a U.S. jail than a Chinese jail," he once told his USF mentor, Harvey Nelsen, a former China analyst at the U.S. Defense Intelligence Agency.

USF closed the sexual-harassment investigation because Zhang and Kriesel didn't pursue their complaints. "I was tired of telling the unpleasant facts again and again," Zhang said. But the school continued looking into Peng, and its findings jeopardized his job and his freedom.

In August 2009, while searching his university laptop, USF's audit and compliance office found "a large cache of sexually related materials with disturbing thematic content," according to the school. USF Provost Ralph Wilcox removed Peng as Confucius Institute director.

The material, which included images of women in bondage, related to his academic research, Peng said. "SM and naked pictures are a very important part of the Japanese culture, and you do not fully understand Japanese culture without it," he said.

Shadowed by the FBI

University auditors dug into Peng's spending as well. He had bilked USF out of \$15,590 in entertainment and travel expenses, mainly by pretending that he was doing research or attending conferences when he was on vacation or teaching at Chinese universities, they concluded.

They also said Peng wrote letters supporting immigration applications for Chinese students and teachers that overstated stipends USF would pay them, boosting their chances of visa approval.

Peng did go to the disputed conferences, and the sums he promised students were subject to change, he said.

"It might be a bit right that I do not know the university procedures well and do not distinguish university

and private business very well,” Peng wrote in a response to the Audit and Compliance report. “However, I do it much to the favor of the university.”

Separately, Peng’s own department barred him from its graduate programs for three years because he gave answers from past exams to two Chinese students about to take the test. Peng said there was no rule against doing so, and it was common in China.

All the while, the FBI appeared to be keeping track of the auditors’ investigation. Mercurio called the audit office three times on Oct. 20, 2009, including one call to the phone number of Kate Head, who conducted the Confucius Institute review. A draft of the report was sent to Peng on Nov. 10. Two days later, two calls were placed from Head’s phone to Mercurio. Head declined to comment.

Mercurio and another FBI agent took Peng to lunch on Nov. 17 and discussed the Audit and Compliance report, e-mails show. The next day, Peng appealed to Mercurio.

“If the final report is very bad and I am severely punished, I will be in a very weak position to help you because I will surely lose my reputation in China,” Peng wrote to the snowbox Yahoo address. “If you can help me and my status and reputation are kept, I promise I can do a lot for you.”

“There probably isn’t much I can do,” she responded. “However, let me know your status, and if I can help you, I will.”

According to Peng, Mercurio suggested he consider a venture outside academia, running a front company that the FBI would establish and fund. Peng said he persuaded her it wouldn’t work because he needed affiliation with USF and the Confucius Institute or he couldn’t do what the FBI wanted -- get closer to Chinese government officials. The bureau regarded the institutes as “very good cover,” he said.

USF police called Mercurio’s office twice on Dec. 17, 2009; one conversation lasted more than 14 minutes. The final Audit and Compliance report came out on Jan. 28, 2010. It said auditors had referred Peng’s alleged theft of public funds and immigration fraud to university police. Mercurio talked to USF police for 12 minutes that day, according to phone records.

“It is my understanding that she is asking USF police to not do anything with their case until she can assess your situation,” Peng’s criminal lawyer, Stephen Romine, wrote to Peng on Feb. 17, after speaking with Mercurio.

‘We Are Dependent on Her’

University officials were appalled by the audit report. President Judy Genshaft, General Counsel Steven Prevaux and Provost Wilcox “wanted to put you in jail for what is in the Head report,” Steven Wenzel, Peng’s civil lawyer and a former USF general counsel, told him later by e-mail.

In early March, Mercurio met with Peng and Romine, according to e-mails. They agreed that Peng would cooperate with the FBI on “national security issues,” and Mercurio would advocate for him with the

university, Peng said.

Periodically, Wenzel updated him on the progress of “our friends,” the lawyer’s euphemism for the FBI. After a faculty panel was convened to review Peng’s case, Wenzel told Peng that “our friends and I are working to get this thing stopped but that is taking longer than I had hoped.”

Mercurio is “the only one to get USF to budge,” Wenzel wrote Peng in August 2010. “We are dependent on her.”

As Mercurio negotiated with the school, she debriefed Peng about his trips to China and pressed for information about Tampa’s Chinese community. She sought his advice on how to induce other Chinese-Americans, including professors and businessmen, to cooperate with the bureau, he said. They would meet, sometimes with other FBI agents, far enough from the USF campus that passers-by wouldn’t recognize Peng, typically at an Olive Garden or airport hotel.

Perhaps stroking his ego, Mercurio assured him that his insights would go directly to President Barack Obama, Peng said. Peng said he offered his views on China’s Taiwan policy and other general topics but avoided names and specifics as much as possible. While rejecting the FBI’s request to take a lie detector test, he accepted several thousand dollars for China travel, he said.

“I am willing to serve my country utilizing my special capacity and resources. But I have to be treated in an honorable and fair way,” he e-mailed Mercurio on Aug. 11, 2010. He told her it was “impossible for me to make more concessions. Even if you and USF can twist my arms and force me into a more unfair deal, it is going to hurt our common course in the long run. Please let USF not to mistreat me further.”

Mercurio lashed back. “Your assistance to my office is not considered substantial, only minimal at this point,” she wrote. “Therefore, understand that I have stuck my neck out for you thus far, knowing that substantial assistance may never happen. A thank you, instead of a list of demands, would be nice for a change.”

Endgame

On Aug. 24, 2010, Peng and the university settled the allegations against him. It fined him \$10,000 and suspended him from December 2010 to December 2011 without pay, preserving his tenure, which the school had threatened to revoke.

Asked if the FBI helped save Peng’s job, Wenzel said, “That’s about right.”

Peng said FBI agents told him that they were able to influence the university on his behalf because the school was grateful for the bureau’s work on a 2003 indictment of USF professor Sami Al-Arian. He would later plead guilty to conspiring to fund a Palestinian terrorist group. USF had called off a deal to buy out Al-Arian for almost \$1 million, possibly because it was expecting the indictment, said Robert McKee, his lawyer at the time.

The FBI had no effect on Peng's punishment, university spokeswoman Lara Wade-Martinez said. USF consistently told the FBI it would "make its own determination" regarding Peng, whose discipline was appropriate and consistent with past practice, she said in a statement. USF's Genshaft and Wilcox declined to comment.

Peng wasn't charged criminally, even though USF Police Detective Jeff Collins said in an interview that there was enough evidence to do so. The school police didn't pursue charges because Peng and the university reached a settlement, Wade-Martinez said.

U.S. Immigration and Customs Enforcement closed an investigation into Peng's alleged falsifying of visa documents without taking action, according to Tamara Spicer, spokeswoman for the agency's Tampa office.

After the settlement, Mercurio unsuccessfully prodded the university to facilitate Peng's access to Chinese officials, e-mails show. Mercurio and an agent of the Central Intelligence Agency went to see Karen Holbrook, then a USF senior vice president, to vouch for Peng, Holbrook said. Mercurio called Holbrook's office eight times from Oct. 15 to Dec. 1, 2010. CIA spokesman Ryan Trapani declined to comment on Peng's case and said the agency "has developed a strong relationship with academia."

In 2011, Nankai University withdrew from the Confucius Institute partnership, citing threatening e-mails it received from anonymous "overseas Chinese" in Tampa. The e-mails said Peng had "made great sacrifices for the motherland" yet was being persecuted by USF, Nankai and the FBI. Nankai said Peng wrote them himself, which he denied. USF blamed Peng and suspended him again, this time for two years without pay, beginning in June 2013.

While waiting for his suspension to end in August, Peng earns a living by teaching in China. Although suicide was on his mind when Mercurio knocked on his door, he said he decided to emulate his father and persevere through adversity. He hopes to start a Chinese business center for U.S. universities.

Peng has largely given up scholarly research. With his reputation in tatters, nobody would publish his work anyway, he said. He presents his travails as a case study in U.S.-Sino misunderstanding to his classes in China.

In response to his second suspension, Peng filed a grievance accusing USF of retaliating against him for refusing to spy on China. It was "by far the most exotic case we've ever had," said Robert Welker, the faculty union's negotiator. USF rejected his grievance and an appeal.

Senior Vice Provost Smith had warned union leaders that the government had enough evidence to put Peng in prison for 20 years, said Welker and Paul Terry, then union president. How did he know that? Smith's comment was "speculative," said Wade-Martinez, the school spokeswoman, because he "was never in communication with the FBI."

Terry said he couldn't understand why USF hadn't fired Peng, but suspected the school was worried that its dealings with the FBI would become public if he were dismissed. Terry recalled telling a colleague at the

time that Peng “must have something on the university.”

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