

# **Follow the Money: The CCP's Business Model Fueling the Fentanyl Crisis**

Written Testimony

of

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Thank you, Chairman Luetkemeyer, Ranking Member Beatty, and members of the House Financial Services Subcommittee on National Security, Illicit Finance and International Financial Institutions for the opportunity to appear before you today.

I am a former U.S. intelligence officer and U.S. Treasury Special Agent. Most of my career has been involved with investigating and studying transnational crime and money laundering. I have written six books on the subjects. My most recent book is *China – Specified Unlawful Activities: CCP Inc., Transnational Crime and Money Laundering*. More information about my background can be found at [www.JohnCassara.com](http://www.JohnCassara.com)

In the following testimony, my intention is to give an overview of the CCP's business model that is fueling the fentanyl crisis. My colleagues will provide specifics that correspond to their particular areas of expertise.

I begin the following testimony with a brief introduction as well as a definition of what I call CCP Inc. I then list 12 categories of transnational crime or specified unlawful activities (SUAs) for money laundering where CCP Inc. is the largest actor. I follow with a broad overview of CCP's involvement with the trafficking of fentanyl. The testimony continues with a description of Chinese-centric money laundering methodologies and enablers which are part of the CCP's business model that is fueling the fentanyl crisis. The methodologies include trade-based money laundering, black market exchanges, and fei-chien or flying money. I conclude with recommendations that emphasize law enforcement.

## **Introduction and Definition of CCP Inc.**

Communist China is an ideological, military, economic, technical, commercial, intelligence, and diplomatic rival of the U.S. and the West. The People's Republic of China (PRC) has a growing exploitative presence in the developing world. While these threats are known, the Chinese Communist Party's (CCP's) involvement with transnational crime and money laundering is not.

Yes, there are plenty of news stories about China's theft of trade secrets and intellectual property. It is widely reported that China is the number one manufacturer of counterfeit goods. The average citizen might be somewhat aware that the African elephant and rhinoceros are endangered because of China's demand for ivory. Tropical forests are being destroyed to satisfy the PRC's demand for wood products. Some might have knowledge of China as the largest manufacturing source of illicit tobacco products. Others might have experienced being priced out of their local housing market due to suspicious Chinese capital flight pushing up property prices. This hearing is about the CCP's involvement in the trafficking of fentanyl. But all of these are single issue, focused stories. What the U.S. and the West have been ignoring is the massive totality of what I call CCP Inc's transnational crime and uniquely Chinese-centric money laundering methodologies and enablers that facilitate the criminality.

My most recent book is [\*China – Specified Unlawful Activities: CCP/Inc., Transnational Crime and Money Laundering\*](#) (Amazon / Kindle Direct Publishing 2023). I wrote the book at the end of my long anti-money laundering career because I am simply staggered by facts and observations that demonstrate China's criminal hegemony and how it launders illicit proceeds. Similar to North Korea, today's communist China is a corrupt party-state regime with a significant crime portfolio. Criminal activity has seemingly become part of the CCP's overall strategy to grow its power.

The CCP/Inc. subtitle of the book makes clear that I am talking about communist China's transnational crime and money laundering - not the Chinese people. In many ways, they are the biggest victims of the CCP regime.

Simply referring to China alone or the CCP by itself is ambiguous, unfair, and inaccurate. To be clear, what I am referring to in my book and in this testimony is the centralized autocracy of the CCP and its heretofore unexamined linkages with illicit crime, corruption, and money laundering. Although I will use the term 'China,' and 'Chinese' in this testimony, that is solely in reference to the Party's dominance of the PRC's governance apparatus, and should not be misconstrued to be a condemnation of Chinese culture or the Chinese people, who have no choice in what regime they live under. The "Inc." is a term that signifies how the Chinese state has leveraged its industrial, high tech, global trading, manufacturing might, and illicit connections to turn the country into an economic superpower. It is an apt metaphor for the "business model" that is the focus of this hearing. So, I will use "CCP Inc." as a general descriptor of the subject under discussion.

## **Specified Unlawful Activities**

We cannot look at the fentanyl issue in a vacuum or as an isolated concern. CCP Inc. has a business model that fuels the fentanyl crisis and many other sectors of transnational crime. In my book, I examine perhaps the 12 most significant sectors of transnational crime. In 11 of the 12 categories, CCP/Inc. is the leading criminal actor. The 11 categories of crime are:

- Counterfeit goods
- Intellectual property theft and trade secrets
- Human trafficking, smuggling and forced labor
- Wildlife trafficking
- Illegal logging
- Illegal fishing
- Illicit tobacco
- Trade fraud

- Arms trafficking and WMD proliferation
- Organ harvesting
- Corruption

Each of the above categories of crime are also “specified unlawful activities” (SUAs) or predicate offenses to charge money laundering. Using SUAs and the estimates of illicit funds generated is not an ideal way of assessing money laundering. Measuring the scale of illicit funds derived from criminal or illegal activity is challenging. Likewise, estimating the magnitude of international money laundering in general is fraught with difficulties. By definition, money laundering is opaque and hidden. The Financial Action Task Force (FATF) states, “due to the illegal nature of the transactions, precise statistics are not available and it is therefore impossible to produce a definitive estimate of the amount of money that is globally laundered every year.”<sup>i</sup> With that caveat in mind, the International Monetary Fund (IMF) has estimated that money laundering comprises approximately two to five percent of the world’s gross domestic product (GDP) every year.<sup>ii</sup> Recognizing the IMF approximation as imperfect is probably the best we can do. Money laundering experts frequently use the IMF estimate when they need to discuss the magnitude of money laundering.

Using 2021 IMF data, global GDP totals approximately \$94 trillion USD.<sup>iii</sup> So, in very round numbers, the total amount of money laundered worldwide annually is somewhere in the vicinity of roughly \$2 to \$5 trillion. Of course, the estimate could be far higher depending on what is included in the count. For example, I don’t believe the IMF estimate includes tax evasion, forms of trade fraud, or underground financial systems. Capital flight is another category which could be considered money laundering but is generally ignored.

Putting things in context, let’s use \$4 trillion as a rough estimate of the annual magnitude of international money laundering. Using recognized estimates<sup>iv</sup> put forward by the Washington D.C.-based non-profit Global Financial Integrity (GFI) and other sources, a solid argument can be made that by examining China’s leading role in the above listed transnational SUAs, China is responsible for introducing and laundering approximately \$2 trillion dollars of illicit proceeds into the world’s economy every year.<sup>v</sup> (Full disclosure: I am proud to sit on the Board of Directors of GFI). In other words, China is responsible for approximately one-half of the money laundered throughout the world every year as measured by SUAs.

The number is staggering. It bears repeating. As measured by the largest categories of SUAs for transnational crime, CCP Inc. and its associated actors are responsible for about half of the money laundered internationally each year. No other country even comes close – not even the United States.

My book, *China – Specified Unlawful Activities*, examines each of the above listed SUAs and quotes recognized sources estimating the amount of illicit proceeds generated. For example, roughly \$600 billion is generated annually due to the theft of U.S. intellectual property alone. Many observers feel the theft has been the largest transfer of wealth in world history. According to a 2019 estimate by the European Union’s Intellectual Property Office (EUIPO) and the Organization of Economic Development (OECD), global sales of counterfeit and pirated goods amount to an enormous 3.3% of world trade.<sup>vi</sup> Furthermore, according to the U.S. Chamber of Commerce, greater China (including Hong Kong) is the source of 86% of the world’s counterfeit goods.<sup>vii</sup> The other SUAs listed above likewise generate enormous illicit proceeds.

Having worked in the U.S. government as well as at one time being actively involved in the Financial Action Task Force (FATF), I understand the political hesitation to officially make the charge that CCP Inc. could be considered an ongoing criminal enterprise and the largest money laundering actor in the world. However, the U.S. State Department does include China on its annual list of “primary countries of concern” for international money laundering.<sup>viii</sup> The National Defense Authorization Act (NDAA), enacted on January 1, 2021, calls for the U.S. Department of the Treasury to conduct a study on the extent and effect of illicit finance risk relating to the PRC. But, generally speaking, both the international community and the U.S. government is silent on the magnitude of China’s involvement in transnational crime and money laundering.

We shouldn’t be silent. CCP Inc. criminality is exposed. In my view, targeting CCP Inc. via coordinated and comprehensive law enforcement action is where they are most vulnerable.

## Narcotics Trafficking and Fentanyl

The twelfth category of transnational crime and SUA for money laundering that I discuss in my book is CCP Inc.'s involvement in narcotics trafficking. As opposed to the other 11 SUAs, China probably does not lead the world in narcotics trafficking. However, it is a very significant player. CCP Inc. is the world's largest producer of synthetic drugs.

According to the China National Narcotics Control Commission (NNCC), China's economic prosperity has turned recreational drug use into more than an \$80 billion annual domestic business.<sup>ix</sup> The estimate dates from approximately 2015. I have not been able to find more recent numbers. In all likelihood, the situation today is much worse. The NNCC also announced that over the last few years synthetic drugs—primarily methamphetamine and ketamine—have surpassed heroin and other opioids as the PRC's primary illicit drugs used in the PRC.<sup>x</sup> As this hearing makes clear, China excels in the manufacture of synthetic drugs and precursors.

However, we should be skeptical of all official statistics put forward by CCP Inc. Communist regimes have always used government statistics as a propaganda and disinformation tool. CCP Inc. wants and produces numbers that reflect well upon the state. Truth is relative.

The government of China does not, as a matter of government policy, encourage illicit drug production or distribution, nor is it officially involved in laundering the proceeds of the sale of illicit drugs. However, some senior government officials have been severely punished for taking bribes and laundering illicit profits related to drug trafficking. In fact, in recent years, China has initiated an aggressive campaign of cracking down on narcotics trafficking that affects *domestic* consumption. There is no doubt that China faces growing and significant drug consumption challenges.

China shares borders with drug source countries in both Southeast Asia and along Mekong's Golden Triangle and remains a major destination and transit country for heroin produced in these areas. Its numerous coastal cities with high-volume seaports and its vast network of major international airports make China an ideal destination and transit country for illicit drugs, as well as a major source of synthetic drugs, new psychoactive substances (NPS), and precursor chemicals used to produce illicit drugs. Unsurprisingly, the production of these

drugs and the manufacturing of precursor chemicals is strongly linked to the country's developed and dynamic chemical and pharmaceutical industries. Domestic Chinese criminal organizations traffic illicit drugs within China. And in recent years Chinese authorities have noted the presence of international drug trafficking organizations originating from Africa and Mexico operating within the country through joint criminal ventures with Chinese syndicates.

Some may ask: "Since the U.S. is the largest consumer of drugs in the world, how can it be said that China is perhaps the most significant actor?" I am definitely not discounting the insatiable U.S. demand for illegal drugs and readily acknowledge that demand is the catalyst for international narcotics trafficking. For generations, the U.S. drug habit has been a national disgrace. But make no mistake, China is a leading global producer of NPS and related illicit drugs.

As imprecise as they are, let's examine some numbers. According to the GFI report referenced earlier, worldwide drug trafficking is estimated at about \$426 billion to \$652 billion per year. According to a 2014 study prepared for the U.S. Office of National Drug Control Policy (ONDCP), the U.S. illegal drug habit is approximately \$100 billion a year.<sup>xi</sup> That number has also probably increased over the years, particularly due to opioids and other synthetic drugs flooding the U.S. market—more on that below. But in law enforcement and policy circles, \$100 billion continues to be used as the most common estimate of illegal drug consumption in the United States. Per the above, according to China's own estimate, recreational drug use in that country is about \$80 billion annual domestic business. The Chinese estimate was released in the same time frame as the U.S. study. Without a doubt, U.S. demand is greater than China's and the U.S. population is not as large. Per capita illegal drug consumption in the U.S. far exceeds that of China's. But it appears the illicit proceeds gap is not as pronounced as thought.

What differentiates China from the U.S. and other Western countries that are large consumers of illegal drugs is Chinese actors' direct and indirect involvement in facilitating international narcotics trafficking and laundering the proceeds. And in some instances, CCP Inc. tacitly supports aspects of the international drug trafficking by looking the other way as it does with the fentanyl trade.

In addition to domestic drug trafficking, Chinese organized crime groups increasingly traffic in international markets. Chinese triads were involved in narcotics trafficking long before it became a global phenomenon; the groups have grown as the trade has expanded. China is a major source of NPS and other synthetic drugs, including fentanyl and methamphetamine that are flooding into the U.S., Canada, and increasingly other Western countries.

Fentanyl is similar to morphine but is 50 to 100 times more powerful. Fentanyl is often reported as a single drug, but it is often mixed with other drugs such as heroin, cocaine, methamphetamine, and even processed into counterfeit pills under brand names such as Xanax, Percocet, Adderall, and Oxycontin. It takes very little fentanyl to produce a high, making it not only an addictive, cheaper option, but often times, a more deadly drug.

As testimony from other witnesses in this hearing make clear, deaths due to fentanyl in the United States have been rising. Each individual death and overdose is a tragedy. More than 100,000 Americans died from drug overdoses in 2021; approximately 80,000 died using opioids, including fentanyl and its derivatives found in other drugs.<sup>xii</sup> To put things in perspective, in the 20-year period from 1955 - 1975 approximately 58,000 Americans died in the Vietnam War. Or, using a more current statistic, from 2020 - 2021 about 53,000 Americans between the ages of 18 and 49 died of Covid-19. In the same age group, fentanyl has also claimed more lives than car accidents, suicide, gun violence, and breast cancer, among others.<sup>xiii</sup>

What accounts for the continuing rise in fentanyl deaths despite China's public claims that it has cracked down? According to the U.S. State Department, "following the PRC's implementation of class-wide controls on fentanyl in May 2019, fentanyl-related overdoses and seizures have continued to increase in the United States. Traffickers have adapted their strategies, resulting in the shipment of synthetic opioid precursor chemicals from the PRC to Mexico [and Canada] as well as greater fentanyl production and shipment from Mexico to the United States."<sup>xiv</sup>

This is where the "CCP business model fueling the fentanyl crisis" enters into the equation. Chinese companies make chemical compounds sold globally for legitimate purposes in medicine and industrial processes. Opioid vendors shield themselves behind these companies and layers of other interlinked companies sometimes in related fields such as biotechnology.

Illicit production and distribution are assisted by layer upon layer of traders, brokers, and freight forwarders that we see in other SUAs briefly discussed above. Moreover, Chinese trafficking organizations deliberately misuse this labyrinth to transport drugs, precursors, and contraband through shipping containers that are intentionally mislabeled; however even without the mislabeling it can be difficult for law enforcement and customs, “to track the origin of precursor chemicals or clandestinely-produced fentanyl because of the intricate network of freight forwarding companies commonly employed by criminal groups to conceal the origin of the product.”<sup>xv</sup>

In other words, despite periodic crackdowns by the authorities, some Chinese vendors created new distribution strategies by producing and selling the precursor chemicals to foreign clients so they could make fentanyl. Precursors were not banned. Boutique suppliers also tweaked their formulas taking advantage of regulatory and enforcement loopholes. New transport and mail routes were developed sending the banned substances into Mexico and sometimes other third countries. It’s a very effective and efficient business model. The U.S. is the final destination for most of the finished product.

Over the last few years, there have been increasing cases involving Mexican and Chinese criminal groups cooperating in the manufacture of fentanyl and fentanyl-laced products including candies that target children. They are subsequently smuggled into the U.S. The fentanyl that still enters the U.S. directly from China primarily arrives in small amounts via international mail, express mail, and parcel packages sometimes routed through third countries.

The reality is that in 2021 the DEA announced that U.S. customs and law enforcement seized enough doses of fentanyl to "kill every single American."<sup>xvi</sup>

Also troubling is that Chinese actors aggressively use the internet and social media platforms to advertise, market, and ship their products. A report by the Senate Permanent Subcommittee on Investigations found that Chinese websites selling fentanyl and carfentanil rapidly and efficiently respond to online orders for the drugs and that they are confident in their ability to get drugs into the United States.<sup>xvii</sup> Carfentanil is 100 times more powerful than fentanyl and 10,000 times more potent than morphine.<sup>xviii</sup>

The Chinese criminals use the open worldwide web to market their illegal and dangerous products in English. They blatantly target Western consumers. In contrast, websites based in the United States only sell fentanyl on the dark web because of law enforcement vigilance in tracking the sale of these illegal drugs. It is difficult for host platforms outside the United States to be taken down. Sometimes crypto-currencies are used for payment. Investigators have found Chinese online merchants are in some cases willing to accept Western Union, PayPal and even credit cards for their product. CCP Inc. has also developed its own robust new payment methods that are web and mobile based.

For example, the Shanghai-based Zheng Drug Trafficking Organization (DTO), run by Fujing Zheng and his father Guanghua Zheng, sold synthetic narcotics including fentanyl and advertised their products on multi-language websites. For more than a decade, the Zhengs ran an agile and sophisticated operation. The Zheng labs manufactured more than 250 different drugs, which were shipped to at least 25 countries.<sup>xix</sup> They were able to quickly modify the formulas of these drugs—creating an analogue—in order to get around China’s narcotics “controls.”

C4ADS, a nonprofit organization specializing in data-driven analysis and evidence-based reporting on transnational security issues, reports that various Chinese drug groups operating online are also using password-encrypted websites. The Chinese DTOs facilitate private groups on social media and messaging apps and operate platforms or virtual marketplaces that connect illicit fentanyl consumers and sellers while avoiding detection by law enforcement.<sup>xx</sup>

Researchers at Terrorism, Transnational Crime, and Corruption Center (TraCCC) at George Mason University studied over 350 English language websites advertising fentanyl on open-web Chinese hosted web platforms. (Full disclosure: I am a proud Senior Fellow at TraCCC). The TraCCC team primarily used the Chinese search engine Baidu Research. The following findings are taken from a 2020 paper prepared by Dr. Louise Shelley, University professor and Omer L. and Nancy Hirst Endowed Chair at the Schar School of Policy and International Affairs at George Mason University and founder and executive director of TraCCC.<sup>xxi</sup>

TraCCC research identified the registration information of Chinese companies advertising on the websites. The researchers were also able to recognize the countries where

fentanyl products were shipped and the key hubs for transport. The analysis was possible because 40% of the websites advertising illicit fentanyl were tied to officially registered Chinese companies. This TraCCC research is important because it contradicts frequently expressed statements that illegal fentanyl is produced primarily by rogue producers in China.

The researchers were also able to follow some of the layering involved. For example, many of the companies in advertisements are fronts, but the use of electronic identifiers and broader economic context facilitated identification to registered legitimate pharmaceutical companies. The TraCCC researchers were able to map and identify the global trade relationships of these chemical and pharmaceutical companies.

One of the prime networks identified through the TraCCC research was the Yuancheng Group, a Chinese chemical company based in Wuhan, China. The Yuancheng Group is comprised of at least 34 companies in China and Hong Kong. Studying identifiers from these companies reveals that the companies have posted advertisements for fentanyl and have registered at least 112 websites, including some devoted to the advertisement and sale of steroids. Further records indicate the Yuancheng Group has shipped to 43 countries across North America, South America, Europe, Africa, Asia, and Australia.

The fact that CCP Inc. allows hundreds of websites advertising fentanyl and its precursors to remain online is deeply troubling. It is important to remember that the PRC is a command state. China controls what its citizens can, or cannot, access, on the internet. It routinely blocks, censors, and takes down sites that do not meet its approval. If the CCP was to direct its robust censorship apparatus that is very effective in thwarting websites it deems a threat to its regime, it could easily do the same with companies' websites advertising fentanyl and other dangerous and illegal drugs. But the authorities do not act. Rather, they allow it flourish. Why?

While some observers blame Chinese organized crime groups for the international trafficking of narcotics, CCP Inc.'s refusal to eradicate websites (which, once again, they can do easily enough) that advertise such poisonous and deadly precursor chemicals and illicit drugs for foreign sales is a major factor in demonstrating official complicity.

There is another troubling indicator. As Channing Mavrellis of GFI writes, "while much of China's response to drug abuse, production, and trafficking could be considered draconian—

such as proactive identification and registration of drug users, compulsory detoxification centers and labor camps for addicts, and the death penalty for traffickers—the punishment for mislabeling shipments of precursor chemicals, the most common diversion tactic, is significantly lighter, typically involving civil penalties and small fines. It is interesting to note the disparity in punishment between those crimes that directly affect the state internally and those that have external impact (i.e., on other countries).”<sup>xxii</sup>

Further exploration of Chinese involvement in other transnational SUAs for money laundering also shows that CCP Inc. has different internal and external standards and enforcement. This necessitates an important question. Is CCP Inc. using or permitting narcotics trafficking to the West as a form of asymmetric warfare to advance its long-term strategic goals? As noted, China’s fentanyl trafficking is responsible for the annual death totals of tens of thousands of lives in the United States, and globally. Related products and precursors sourced from China are also responsible for countless ruined lives, families, and communities. Chinese-produced fentanyl and associated products cost the U.S. hundreds of billions of dollars annually in lost productivity, health care, and criminal justice costs. If China perceives itself to be in a silent or cold war with the U.S. these are all very effective and efficient outcomes.

Drug use has long been considered a form of asymmetric warfare. Others have advanced the premise that CCP Inc. is flooding the U.S. and the West with opioids as payback for the Opium Wars during the mid-19<sup>th</sup> century.

Of course, the ultimate responsibility lies with the user. And without question the U.S. has failed both in both drug interdiction and treatment, not only with fentanyl but also with heroin, opium, and other domestic illegal and legal drugs such as OxyContin. Our unsecured border makes the situation even worse. But from a law enforcement perspective, we must examine the source. And according to a 2020 report by the DEA, “China remains the primary source of fentanyl and fentanyl-related substances trafficked through international mail and express consignment operations environment, as well as the main source for all fentanyl-related substances trafficked into the United States.”<sup>xxiii</sup> Moreover, increasing Mexican-Chinese transnational criminal organizations (TCOs) collaboration on crime and money laundering are significant national security threats to the U.S. homeland.

## **Money Laundering Methodologies and Enablers**

In my book, *China – Specified Unlawful Activities*, I discuss a number of money laundering methodologies and enablers with “Chinese characteristics.” (The term Chinese characteristics is used by the CCP itself). Many examples are given. Collectively, they are intertwined in the CCP’s business model. Some of the methodologies I explore include Chinese underground banking or CUBS, capital flight, gambling, real estate, and the use of offshores and secrecy jurisdictions. Corruption can be both methodology and also a SUA. I also call corruption “the great enabler” for money laundering. Bribery is part of the CCP Inc. business model and gameplan. CCP Inc. has taken their domestic corruption and exported it overseas. The modus operandi abroad is using corruption and “corrosive capital” as instruments of foreign policy. This is further augmented by “elite capture” and sophisticated influence operations. This occurs in the United States and against American interests abroad. Other enablers I discuss in my book include Chinese organized crime, espionage, social monitoring, the promotion of Chinese control of Free Trade Zones (FTZs), lack of Chinese cooperation with international law enforcement, and poor Chinese money laundering compliance.

Three methodologies that are part of the CCP business model and directly impact the trafficking of fentanyl are trade-based money laundering, black- market exchanges, and fei-chien or flying money. I will provide an explanation of each.

### **Trade-based money laundering (TBML)**

Perhaps the most extensive or widespread form of Chinese (and global) money laundering comes from “trade-mis-invoicing” or trade fraud. Trade fraud or customs fraud is a SUA for money laundering. Depending on its form, it can also be a money laundering methodology. In fact, I believe it is the largest and most widespread methodology for both China and the world at large. It is also the least understood, recognized, and enforced.

For a detailed examination of TBML, please see my book *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*, Wiley, 2016

Most forms of trade mis-invoicing revolve around invoice fraud and manipulation. Generally speaking, invoice fraud means the contents, description, and/or the value of goods is deliberately misrepresented. Sometimes this is done to facilitate simple customs fraud, i.e., minimize the payment of taxes and duties, avoid currency controls, or move capital or value offshore. International trade via invoice manipulation is also a very common means used by criminals and criminal organizations to illegally transfer value across international borders.

TBML is defined by the FATF as “the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.”<sup>xxiv</sup> The key word in the definition is *value*. Instead of following the money trail via cash or the electronic bits and bytes of a bank-to-bank wire transfer, with TBML we examine the shipments of commodities and trade goods. Their sale and transfer—real and fictitious—very effectively launders money, evades taxes and tariffs, and transfers value between cooperating parties in the transaction(s).

TBML is very broad. It includes customs fraud, tax evasion, export incentive fraud, value-added tax (VAT) fraud, capital flight or the transfer of wealth offshore, evading capital controls, barter trade, underground financial systems such as hawala and fei-chien (the Chinese “flying money” system), black market exchange systems, and even forms of commercial TBML such as trade diversion, transfer pricing, and abusive trade mis-invoicing.

For money launderers and terrorist financiers, transferring value via trade goods is particularly attractive because it generally does not trigger financial transparency reporting requirements or the filing of financial intelligence or, as it is commonly called in the U.S., “Bank Secrecy Act data.” Financial intelligence promotes a degree of financial transparency and is our primary AML/CFT countermeasure.

The most common forms of trade mis-invoicing are:

- Over and under invoice pricing
- Multiple invoicing for the same goods
- Falsely described goods
- Mis-representation of the quantity being shipped

- Mis-representation of voyage to disguise origin from sanctioned countries
- Mis-representation of shipment origin and voyage to evade customs duties

Most of the above are self-explanatory. But I do want to briefly explain how over and under invoicing is used to transfer value and launder money, because I will refer to this below when I discuss the Chinese underground “flying money” system.

The key element of this technique is the misrepresentation of trade goods to transfer value between the importer and exporter or settle debts/balance accounts between the trading parties. When an importer and exporter are working together, they can easily manipulate the invoice to reflect a price that does not adhere to true market value. The shipment (real or fictitious) of goods and the accompanying documentation provide cover for the transfer of money. Invoice fraud is generally considered customs fraud. And customs fraud is the primary predicate offense or specified unlawful activity in TBML cases.

What are the most common invoice scams? First, by under-invoicing goods below their fair market price, an exporter is able to transfer value to an importer while avoiding the scrutiny associated with more direct forms of money transfer. The value the importer receives when selling (directly or indirectly) the goods on the open market is considerably greater than the amount he or she paid the exporter.

For example, Company A located in China ships one million widgets worth \$2 each to Company B based in Mexico. On the invoice, however, Company A lists the widgets at a price of only \$1 each, and the Mexican importer pays the Chinese exporter only \$1 million for them. Thus, extra value has been transferred to Mexico, where the importer can sell (directly or indirectly) the widgets on the open market for a total of \$2 million. The Mexican company then has several options: it can keep the profits; transfer some of them to a bank account outside the country where the proceeds can be further laundered via layering and integration; share the proceeds with the Chinese exporter (depending on the nature of their relationship); or even transfer them to a criminal organization that may be the controlling interest behind the business transactions.

To transfer value in the opposite direction, an exporter can over-invoice goods above their fair market price. In this manner, the exporter receives value from the importer because the latter's payment is higher than the goods' actual value on the open market.

Here is a simple way of looking at things:

*To move money/value out:*

- Import goods at overvalued prices or export goods at undervalued prices

*To move money/value in:*

- Import goods at undervalued prices or export goods at over-valued prices

Unfortunately, the magnitude of TBML has never been systematically examined by the FATF, international financial institutions (IFIs) —e.g., IMF or World Bank—or the U.S. government. Trade-based value transfer is also not closely examined by intelligence, law enforcement, and customs services. But some academics and non-profits have done very useful work examining TBML and estimating the extent of the challenge.

In the United States, Dr. John Zdanowicz, an early pioneer in the study of TBML, conducted research that identified glaring anomalies in U.S. trade data. For example, he found plastic buckets from the Czech Republic imported with the declared price of \$972 per bucket! Toilet tissue from China imported at the price of over \$4,000 per kilogram. Bulldozers shipped to Colombia at \$1.74 each! Why are non-industrial diamonds being exported to France for \$2.32 per carat but imported from South Africa for \$929,390.82 per carat? Dr. Zdanowicz compares the declared value of the trade good or commodity against true market value. By examining 2021 U.S. trade data, Dr. Zdanowicz found that approximately \$784 billion was moved into the U.S. via over-valued exports and under-valued imports. China was the trading partner for about \$85 billion of the total. Approximately \$640 billion was moved out of the U.S. via undervalued exports and over-valued imports. Approximately \$70 billion was moved out to China via suspect trade. He then compared those numbers to the overall value of U.S. imports and exports. He found (depending on import or export) approximately 14 to 17% of U.S. trade could well be tainted by customs fraud and perhaps TBML.<sup>xxv</sup>

(The above has serious fiscal ramifications. Examining 2021 U.S. trade anomalies, per the above, Dr. Zdanowicz estimates that the U.S. Treasury lost about \$640 billion of taxable profits due to trade-based tax evasion and TBML.<sup>xxvi</sup> The same type of trade fraud revenue loss occurs in every country.)

China is the world's largest trading nation. In 2019, the total value of Chinese exports worldwide was \$ 2.5 trillion. The total value of Chinese imports was a bit over \$2 trillion.<sup>xxvii</sup> In 2021, according to CCP Inc.'s own numbers, even factoring in the worldwide pandemic, China's foreign trade volume hit a record high of \$6.05 trillion.<sup>xxviii</sup> So, if we use a very conservative estimate that only ten percent of trade is suspect, mispriced, or related to forms of trade fraud, that could mean that suspect and possibly illicit Chinese trade is approximately \$600 billion a year and could very easily be much higher than that!

By its volume and sheer dominance of international trade, Chinese actors are assuredly involved with a massive amount of trade fraud. In addition, trade also masks money laundering methodologies and value transfer schemes that are instrumental in the trafficking of fentanyl and other forms of contraband.

## **Black Market Exchanges**

Illicit proceeds are the catalyst driving the tragedies surrounding the unsecured U.S. border. Yet few realize the quiet ascendancy of Chinese money launderers. They are displacing Colombians and Mexicans.

Although various schemes are used to launder illicit proceeds from the sales of narcotics in the United States, for years the preferred methodology has been the Black-Market Peso Exchange (BMPE). It is arguably the largest and most effective money laundering methodology in the Western Hemisphere. The evolution of the BMPE is an excellent case study of how international criminal networks adapt and how CCP Inc. has incorporated this form of TBML into its business model.

Ironically, the BMPE was not created to launder drug money. In 1967, Colombia enacted regulations that strictly prohibited citizens' access to foreign exchange. Colombian

merchants who wanted to import U.S. trade goods – for example, John Deere tractors, Bell helicopters or Marlboro cigarettes – through legitimate banking channels had to pay stiff surcharges above the official exchange rate. To avoid these steep add-on costs, importers often turned to Colombian underground peso brokers, from whom they could buy U.S. dollars on the black market for less than the official exchange rate to finance their legitimate trade.

By the 1980s, the underground peso situation was taking on a new dimension. As U.S. cities found themselves awash in Colombian cocaine, narco-traffickers and cartels were faced with a logistical problem. They had to devise ways to launder and repatriate approximately 20 million pounds of U.S. currency they annually accumulated in North America.

The criminal organizations found a partial solution in the first law of economics. Supply met demand in the form of the BMPE.

Consider a Colombian drug cartel that has sold \$3 million of cocaine in the United States. A representative of the cartel sells these accumulated dollars to a Colombian peso broker at a discount. The cartel is now out of the picture, having successfully sold its drug dollars in the United States and, in return, obtains pesos back in Colombia.

To complete the BMPE cycle, the peso broker must take two more steps. First, he directs his representatives in the United States to “place” the purchased drug dollars into U.S. financial institutions, using a variety of techniques designed to avoid arousing suspicion or triggering financial intelligence reporting.

Second, he takes orders from Colombian businesses for U.S. trade goods, arranging for their purchase using the laundered drug money he owns in the United States. Some businesses should know better. Via “willful blindness,” they don’t ask the questions they should. The broker has laundered the \$3 million in drug money he purchased from the drug cartel.

This money laundering methodology was so successful that the Colombian BMPE became the premier money laundering methodology in the Western Hemisphere in the 1980s, 1990s, and the first decade of the 2000s.

In 2014 there was a turning point. A large law enforcement investigation called Operation Fashion Police showed how Los Angeles–based garment dealers took U.S. drug money and exported their product not to Colombia but to Mexico.

In addition, some of the clothing exporters mixed customs fraud into the BMPE conspiracy. “Made in China” labels were removed from thousands of imported garments. The fraud saved the co-conspirators from paying taxes on the “Made in China” imports because on paper they appeared to be “Made in the USA,” and exempt from customs duties under the North American Free Trade Act (NAFTA).

Once again, with the Mexican BMPE, the proceeds from narcotics trafficking stay on the U.S. side of the border. The same is now true with the cartels’ U.S. involvement in human trafficking, trade in opioids, kidnapping, stolen cars, and other illegal activities. In return, trade goods are shipped to Mexico.

About five to ten years ago, the BMPE shifted focus once again. Now, investigators are finding that Chinese manufactured goods are becoming favored instruments in the BMPE and that similar BMPE financial systems are found around the world.

In 2000 bilateral trade between China and Mexico was about 1 billion dollars. By 2021, trade between China and Mexico topped 100 billion dollars. Mexican authorities have said that the surge has allowed drug cartels and their money launderers to piggyback on this burgeoning trade relationship.<sup>xxix</sup> Some of the piggybacking includes TBML, value transfer, and the BMPE.

Fronts for Mexican drug trafficking organizations use illicit proceeds to buy container loads of cheaply made Chinese goods. Using the TBML technique of over-invoicing discussed above, low-quality Chinese manufactured items are made to appear on paper as being worth significantly more. Payment for the goods is sent out of the country. That’s the wash.

We see the result of this in our cities and towns but we don’t recognize or understand what is going on. Massive quantities of cheaply manufactured Chinese goods including counterfeits are found in black markets as well as souks, bazaars, marketplaces, dollar stores, Mom and Pop shops, swap meets, street kiosks, “China shops,” and warehouse stores around the world.

In some cases, brokers under-invoice Chinese products. A variety of goods including electronics, garments, small household appliances, are purchased, imported, and sold in many “China shops” and on the black market in countries around the world. Via this form of value transfer, funds are used to buy contraband including drugs, ivory, endangered and illegal wildlife and their parts, and heavily regulated flora and food items that are later shipped to China. This is why I noted earlier in my testimony that the CCP business model and its involvement with various SUAs are intertwined and cannot be examined in isolation.

The BMPE has evolved further still as Mexican and other foreign national buyers and brokers travel directly to China to place orders for the goods or they avail themselves of e-commerce brokers to purchase consumer products that are made in China. Generally speaking, Chinese merchants also practice willful blindness. They do not conduct customer due diligence and do not care if they are being paid with illicit proceeds.

Chinese organized crime has entered the mix. Chinese actors working with the Mexican cartels have pioneered the growing use of **“mirror accounts” or “mirror swaps”** to launder the proceeds of crime.

With “swaps,” Chinese brokers often working with Chinese organized crime groups and the cartels identify Chinese/American cash intensive businesses that are willing to cooperate.

How do the swaps work? The Chinese/American businessperson receives the drug cash from the Chinese broker working with the cartels. The business later “places” the proceeds of crime into its revenue flow and represents the drug cash as legitimate proceeds from the business. Or, the cash is used to assist other Chinese that want to circumvent Chinese capital flight restrictions and, for example, purchase U.S. property, housing or other high-ticket goods.

Meanwhile, these complicit businesses are asked to transfer a designated amount of money through Chinese phone apps to accounts based in China. Using a currency converter app on a smartphone, the participants agree on the exchange rate between the U.S. dollar and the Chinese yuan. Once the money is offshore in China, the value can be further re-routed to Mexico or elsewhere per the instructions of the cartels.

It's called a “swap” because the participating businessperson takes possession of the drug cash, while simultaneously transferring the equivalent in Chinese yuan from his/her account in  
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China to the account provided by the broker. Of course, the Chinese/American businessperson also receives a commission.

During the original Colombian BMPE, the average commission for the black-market peso broker was about 15%. The Chinese are doing it for 1 to 2% on average.<sup>xxx</sup> And the speed is almost instantaneous. For the traffickers, the big plus is that the Chinese organized crime groups involved absorb all the risk. The cartels know they will get paid.

Communications are generally accomplished via Chinese apps such as WeChat. Law enforcement is reportedly challenged to monitor the communications and monetary transactions. Yet the same transactions are easily monitored by the platforms involved as well as Chinese intelligence entities. Mirror swaps also avoid U.S. financial intelligence reporting requirements – our primary anti-money laundering countermeasure.

I discuss Chinese espionage and Chinese organized crime in my book *China – Specified Unlawful Activities*. I believe China’s 2017 National Intelligence Law is pertinent to “swaps” and the use of Chinese/American businesses. The Law requires Chinese organizations and citizens, wherever they are in the world, to support, assist, and cooperate with PRC intelligence services.

## **Fei-Chien or Flying Money**

Chinese underground finance or alternative remittance systems are primarily used to remit wages from the Chinese diaspora back to the homeland. Authorities have no wish to interfere with hard-working immigrants sending money “back to the home country” to help support extended family in China. Most of these money transfers are perfectly benign. Unfortunately, these low-cost and highly efficient financial systems are also abused by criminals to move, transfer, and launder illicit proceeds. Increasingly, the transfers are multi-directional. The system is very attractive to criminals because by its very nature it is opaque. Generally speaking, U.S. law enforcement does not understand or recognize Chinese underground finance. There are few trails for authorities to follow. Chinese underground finance or alternative remittance systems also avoid government scrutiny, taxes, and traditional countermeasures such

as the filing of financial intelligence reports. Chinese flying money is used primarily in the layering stage of money laundering.

It is believed that *fei-chien*, sometimes known as “flying money,” was started during the T’ang Dynasty (618 to 907 AD).<sup>xxx1</sup> At the time, there was a growing commodity trade within China. Some historians believe it was the rice trade and others the tea trade that were the catalysts for this new financial system. Ironically, as opposed to modern day practices, the transfer schemes were not invented as underground methods of payment transfers, but were rather systems devised by the government to facilitate taxation. Merchants sold their goods and then brought their revenues to provincial “memorial offering courts.” The government collected taxes. In turn, the merchants were issued certificates for the remaining value of the commodity sales. When the merchants returned to their home provinces, they would present the certificates to the provincial government for payment. Interestingly, some scholars believe these certificates were the forerunner of the paper banknotes that appeared during the Song dynasty (960 – 1279 AD). The *fei-chien* system became an efficient way of payment. Completing transactions in this way spared both the merchants and government the risk of transporting large sums of money and ensured all parties to the transaction would get paid.

Over the centuries, the *fei-chien* system continued to evolve. Chinese workers increasingly began to migrate to remote provinces, and then overseas. The Silk Road trade between China, Central Asia, and Europe created a demand for brokers at the ends of the major trade routes who were prepared to settle each other’s debts. Negating the need for physical currency or gold to travel was an important security consideration. In addition, families back home needed financial support to maintain their livelihoods. Expatriate Chinese businesses began to develop side businesses of remitting money back to China. The international Chinese diaspora spread this indigenous financial system further still. Today, modern Chinese businesses as well as “Chinatowns” and “China shops” and Chinese organized criminal groups are found around the world. So too is Chinese flying money. Chinese underground banks are a new iteration of an age-old financial system, re-purposing informal value transfer techniques for today’s world.

Strong Chinese family bonds are incorporated into “*guanxi*,” which is an overarching social system of rules that govern relationships and social behavior. *Guanxi* is the guarantor of

both secrecy and the integrity of the parties to the transaction. Those who violate its prescriptions find themselves as social outcasts, essentially shunned in all circles. *Guanxi* is an integral component of *fei-chien*. In other words, similar to hawala and other better known indigenous informal value transfer systems, an essential element is trust. The trust is based on family, clan, social mores, friendship, and culture. As a result, it is very difficult for outsiders to penetrate the *fei-chien* underground financial networks.

Let's use a simple scenario to illustrate how Chinese flying money works: Wang in Guangdong province wants to send 200,000 Chinese renminbi (RMB) to his brother in New York City. Wang wants to protect his hard-earned money by investing in dollars and the United States. He uses a series of underground flying money transfers to avoid the PRC's tight capital restrictions. Wang gives the Guangdong "flying money" broker the RMB and in turn receives a code number. He trusts the broker as they have a familial relationship. The "flying money" broker in Guangdong directs his counterpart in New York (perhaps a member of the same family) to pay the equivalent in U.S. dollars (approximately \$28,000) upon presentation of the code. The code could be transferred in a telephone call or a message contained in an e-mail or perhaps the Chinese messaging system, WeChat. Not many years ago, a playing card or a portion of a currency note with a specific chop, marking, wax seal, or other physical sign would be presented to the broker as a sign of authentication. If it is a recurring transaction, codes aren't necessary. Upon receipt, the New York "flying money" broker pays Wang's brother in New York City. The RMB did not physically leave China. The dollars were already in the U.S. Similar to hawala, the system can be described as "money transfer without money movement."<sup>xxxii</sup> Wang's brother safeguards the \$28,000 and following transfers. His brother's capital is now in the United States and authorities are none the wiser.

Money and value are also sent back to China. Like all immigrant groups, Chinese send money back home to help support their families. The same *fei-chien* brokers are involved. Even though "flying money" largely operates on trust and community ties, the brokers are in business to make money. Occasionally they have to settle accounts. Transactions are multi-directional. Using the above example, the New York broker might be running a deficit or a surplus with his counterpart in Guangdong. Various methods are used to settle accounts including banks, cash couriers, online payment services, mirror accounts, and trade-based value transfer.

Surplus credits could also be used by a client unrelated to the original transaction(s). For example, credits could be used for the purchase of foreign real estate. For a fee, the client that wants money outside China pays RMB in China to a flying money broker and receives credit in the desired foreign location in local currency.

One of the most popular methods of getting RMB or yuan out of China involves finding a willing foreign contact who would like to set up a private exchange for Chinese RMB. Flying money networks are sometimes used but so are informal personal networks and business associates. For instance, the overseas person puts their dollars into an account in Hong Kong or Singapore belonging to the Chinese individual. The Chinese individual in China puts the Chinese RMB in an account in Beijing that is connected with the overseas investor who wants the money in China.

What is often overlooked in hawala, flying money, and other informal underground financial systems is that historically and culturally trade is most often used in the settling of accounts between brokers. Recall the discussion of trade fraud, value transfer, and TBML. Of particular relevance is the section on over-and-under invoicing. Trade-based value transfer has been used as an efficient and effective settlement system for thousands of years. Most “flying money” brokers are directly involved or associated with trading companies - especially now that China is a global economic and trade power.

How do the “flying money” brokers profit? Although commissions are paid to the brokers at both ends of the transaction, the fees are less than banks or traditional money remitters such as Western Union charge. In comparison to large brick-and-mortar banks and money transfer chains, expenses are small. Often the brokers use legitimate businesses as fronts. The businesses include restaurants, “China shops,” and trading companies. Of course, in the underground remittance segment of their business they skirt regulations and taxes. In the United States, the flying money brokers are technically classified as a money service business (MSBs) for the purposes of registration, licensing, and reporting financial intelligence. They must register with FinCEN and be licensed in 48 of the 50 states. They are also supposed to file financial intelligence. They do not comply.

After the September 11 attacks in the United States, law enforcement and intelligence agencies began to focus on hawala and its links with terror finance. As a result, hawala has received much worldwide attention and notoriety. There have been a number of successful investigations into how hawala is misused by criminals and terrorists. Because of the worldwide Chinese diaspora, I believe the magnitude of “flying money” is larger than hawala. Together, underground remittance systems could be valued at over \$1 trillion per year.<sup>xxxiii</sup> The important point to note is that both of these culturally-based systems are efficient and historically and culturally rely on trade-based value transfer.

I have the utmost admiration and respect for these underground financial systems. They are fast, efficient, reliable, functional, and provide much needed low-cost financial and remittance services for millions of people around the world. The primary drawback, of course, is that criminals take advantage of the systems’ opaqueness and anonymity. Flying money is used to launder the proceeds of crime. These “underground,” “parallel,” or “alternative remittance systems” are very difficult for law enforcement and intelligence services to monitor. Most law enforcement at the federal, state, and local levels are not even aware of the existence of flying money. There are very few investigations.

## **Recommendations**

CCP Inc.’s criminal activities are increasingly exposed. I believe CCP Inc. is vulnerable via a systematic and coordinated law enforcement approach. The following suggestions are offered in no particular order or priority. Most of them focus on law enforcement and related topics. I have made recommendations for combatting individual SUAs and money laundering methodologies elsewhere.<sup>xxxiv</sup>

### **Investigate, Prosecute, and Convict Criminals**

It all comes down to enforcement.

There are a large number of academic, think-tank, non-profit, and journalistic exposés of CCP Inc. criminality. As noted previously, they generally examine one case or perhaps study one SUA but do not examine the totality of CCP Inc. transnational crime and the corresponding CCP

Inc.-centric money laundering methodologies. Nevertheless, these studies educate diverse communities around the world and are helpful. Unfortunately, scholarship does not solve the problem.

With a few exceptions, we have the laws, rules, and regulations that are necessary to investigate, prosecute, and convict CCP Inc. actors involved with transnational crime and money laundering. U.S. federal criminal investigators have the resources to make cases that meaningfully target China's corruption and criminality by investigating, prosecuting, and convicting criminals. We have the ability to follow the illicit money and value trails and take away the criminals' proceeds of crime. The civilized world is predicated on the rule of law, equal justice and holding wrong-doers accountable. Unfortunately, when it comes to CCP Inc. what is missing is political will, policy, consensus, mandate, and an articulated mission. Enforcement is the key.

### **Develop a U.S. Law Enforcement Strategic Plan Focused on CCP Inc. Crime**

Every U.S. government department and agency has a mission statement. They have a number of strategic plans, five-year plans, performance goals, etc. Most importantly, the plans are used to allocate funding and resources. (Unfortunately, these five-year plans are seldom reviewed five years later. The failures in achieving the articulated goals are rarely noted and those responsible for the failures are never, I repeat, never held accountable.) Having a strategic plan is simply how government bureaucracies work. We do not have an all-encompassing law enforcement-oriented strategic plan to confront PRC-focused crime in the United States and abroad. We need one.

In February 2022, the "China Initiative" targeting CCP Inc. crime—particularly espionage and IPR theft—was cancelled. That same month, the FBI's Director Christopher Wray said that Chinese spying had become so prevalent in the U.S. that on average, the FBI was opening on average two counterintelligence investigations a day, with more than 2,000 such cases already underway.<sup>xxxv</sup>

As disappointing as the cancelation of the China Initiative was, even still the emphasis on just one or two SUAs is not enough. In addition, an effective strategic plan should not fall under the purview of one government department or bureau. CCP Inc. criminality is extensive

and wide ranging. There are multiple SUAs that demand attention. Crimes should be looked at as parts of a whole. The target should be considered an on-going criminal enterprise. The totality of CCP Inc. transnational crime and money laundering needs to be understood. These transnational crimes cut across the mandates of several U.S. intelligence, law enforcement, and regulatory agencies. Therefore, I encourage the current administration to review its policies vis a vis CCP-affiliated criminality. Perhaps Congress via the power of the budget and executive branch oversight could mandate a U.S. government-wide law enforcement oriented strategic plan that investigates and holds accountable those involved with CCP Inc. transnational crime and corruption.

### **Establish CCP Inc. Task Forces**

In the United States, the FBI has the mandate to pursue most of the CCP Inc.'s SUAs, money laundering methodologies, and enablers found in the United States. The criminal networks also have overseas ties. Fortunately, the FBI has 63 legal attaché offices—commonly known as legats—and more than two dozen smaller sub-offices around the world, providing coverage for more than 180 countries, territories, and islands. Other federal agencies and departments as well as state and local law enforcement offices have roles to play as well. Some, like the DEA and ICE, also have a large overseas presence.

According to FBI Director Christopher Wray, China poses the biggest threat to the U.S., more than any other nation.<sup>xxxvi</sup> Wray has made numerous statements about the dangers of Chinese espionage and IPR theft. The wide variety of other SUAs do not receive enough attention by the Bureau. There is also a general lack of understanding within the FBI of TBML and how it impacts so many crimes including China-centric money laundering methodologies. All of the above, and many other methodologies and enablers with “Chinese characteristics” are part of the CCP Inc. business model.

Over the last decades, U.S. law enforcement has enjoyed considerable success establishing task forces comprised of federal, state, and local law enforcement. There may be concurrent jurisdiction when, all at the same time, a crime is a violation of federal, state, and local law enforcement. Task forces typically focus on terrorism, organized crime, narcotics, gangs, and human trafficking. Some of the best-known national task forces are the Organized

Crime Drug Enforcement Task Forces (OCDETF) and the Joint Terrorism Task Forces (JTTFs). The Director of National Intelligence and other U.S. intelligence agencies often assist the task forces in gathering and analyzing intelligence related to national security threats.

I propose establishing new task forces comprised of federal, state, and local law enforcement that specifically target the CCP Inc. threat domestically. And, understanding and adhering to the constraints posed by venue and jurisdiction, investigate the Chinese criminal presence overseas. This must be done in concert with our partners. Foreign investigations should include Chinese triads' involvement in illicit trade in ports, FTZs, BRI projects, transnational crime of all sorts, cross-border money laundering operations, and corruption. Per the above, certain CCP Inc.-backed crimes are currently being investigated—for example, espionage and IPR theft. But, once again, we need an understanding of the “totality” of what is going on including the relationships between criminal networks and their enablers engaged in a variety of SUAs. We need to focus on uniquely Chinese ways of laundering money and transferring value. We have to better understand the relationship between the government of China, its intelligence services, and organized crime. An isolated FBI field office or even a task force dedicated, for example, solely to narcotics trafficking is not going to be able to do that.

The new China Inc. task forces should be directed by Assistant U.S. Attorneys that have an aggressive approach but fully adhere to the law and respect and safeguard civil liberties.

### **Really, Truly, Finally Go After the Money**

U.S. law enforcement has consistently talked about the importance of “following the money” and taking away the proceeds of crime from criminals and criminal organizations. Yet in practice those self-evident goals have not been emphasized. To take just one notorious example, in our “War on Drugs” our efforts have been concentrated on interdicting the participants and the products. Another strategy the DEA and other law enforcement organizations pursue is to go after the “kingpins” or the leaders or heads of criminal organizations. The strategy is to decapitate the boss of bosses and kill the organization. A further tactic is to go after the low-level participants—the street-level dealers and the mules and follow them to the top of the organizational structure. However, the most common counter measure of all is to go after the product, from bags of fentanyl and opioid products smuggled across the border to tons of cocaine

seized on the high seas. The history of the drug wars over the last 30 years has shown that none of these tactics have been effective.

Having been in federal law enforcement, I'll tell you the truth: We go after the participants and the product because it is far easier than going after the money. Also, the product is not just drugs. It similarly holds true for human beings in trafficking networks, counterfeit goods, illicit tobacco, wildlife trafficking, etc. All of the above and many more are SUAs for CCP Inc. money laundering. Criminals do not traffic in drugs for the sake of drugs or any other illegal good or service. They engage in crime for the money. Following the money trail and taking away proceeds of crime will hurt the criminal organization far more than a prison term or a seizure of contraband. Our emphasis on product and participants has led to failure. But the law enforcement bureaucracies persist in their efforts primarily because of careerism, bureaucratic culture, and lack of imagination. In order to change that paradigm, we need to emphasize the money and value trails including in the trade, cyber, and digital arenas. In other words, we must target and prioritize the proceeds of crime. To make that happen, we have to change the incentives and the culture of the law enforcement bureaucracies. I have written about this important topic elsewhere.<sup>xxxvii</sup>

### **Civil Forfeiture**

I have little expertise in international law. I am not an attorney. So, the following is simply an idea that could be explored by victims of CCP Inc. criminal actions including the trafficking of fentanyl.

Sovereign immunity is a long-standing doctrine that grants immunity to a foreign country against the jurisdiction of the courts in another country. There have not been many exceptions to this principal, yet there may be one that is relevant to our situation with China. The 1976 Foreign Sovereign Immunities Act, or FSIA for short, presents the legal context that allows individuals or organizations to bring a civil lawsuit against foreign states or their representatives as well as foreign organizations. FSIA lists procedures to be followed when suing a foreign country as well as how assets are to be attached for international debt recovery purposes. It is still quite difficult under FSIA and international law to hold foreign countries liable for criminal offenses; however, there are exceptions. Some of these include:<sup>xxxviii</sup>

- When a foreign state conducts commercial activities in, or when those activities directly affect the United States
- When there's a dispute over property taken in violation of international law
- When monetary damages against a foreign country are sought for loss of or damage to property, death, or personal injury resulting from its tortious conduct in the United States

For example, fentanyl and its precursors are produced in China. CCP Inc. could seriously crack down on the production, advertising, sales, and distribution of fentanyl and other opioids and their precursors. It chooses not to. An aggrieved plaintiff in the United States, perhaps the parent of a son or daughter that is a victim of fentanyl, working with an aggressive attorney, could bring a case against the PRC under the FSIA exceptions. Perhaps it could be a class action lawsuit. The same reasoning could hold under CCP Inc.'s peddling of dangerous counterfeit goods in the United States as well as IPR theft, toxic foods and medicines, and possibly other crimes.

The evidence is becoming increasingly clear that Covid-19 was developed in a lab in Wuhan. At the time of the time of Covid-19's release, domestic flights in and out of Wuhan were shut down. International air travel was allowed to continue. The policy spread Covid-19 around the world. Perhaps, one day China could even be held accountable for the development and intentional international spread of Covid-19.

It's currently impossible to go after China-based assets of criminal actors involved in illegal trade. However, there are plenty of Chinese assets in the United States. According to FBI Director Christopher Wray, "Effectively all Chinese companies are in the pockets of the Chinese Communist Party (CCP). . .those [companies] that aren't owned outright are effectively beholden to the government all the same, as Chinese companies of any size are required to host a Communist Party cell to keep them in line.... almost like silent partners."<sup>xxxix</sup> Therefore, since CCP Inc. is an authoritarian state and ultimately all assets belong to the government that condones criminality, in theory, CCP Inc. assets could be subject to civil asset seizure and forfeiture.

### **Formulate Intelligence Collection Taskings**

I am out of the U.S. intelligence and law enforcement communities now, but it appears the concerned bureaus, agencies, and departments are for the most part ignorant about the totality of CCP Inc. transnational crime and, in particular, money laundering methodologies. This will only change when policymakers make it a matter of import. I urge the President of the United States to task the Office of Director for National Intelligence to include in the National Intelligence Priorities Framework (NIPF), and through Intelligence Community directives, to have the Central Intelligence Agency (CIA), National Security Agency (NSA) and other applicable intelligence agencies develop intelligence reporting requirements for HUMINT and SIGINT and other collection means that target Chinese transnational crime and money laundering globally. I further urge the release of unclassified overlays of global illicit markets with significant Chinese corruption and criminality (e.g., BRI). Within classification guidelines, criminal investigators should be given access to the finished intelligence products to assist them in their targeting and investigations.

### **The FATF Should Name and Shame China**

In the world of anti-money laundering/counter-terrorist financing (AM/CFT), it is the Financial Action Task Force (FATF) that makes things happen.

The FATF was created in 1989 by the G-7 to combat international money laundering. The FATF is an international AML/CFT policy making-body. It does so primarily through its 40 recommendations and periodic mutual evaluations that ensure countries adhere to the internationally accepted AML/CFT guidelines. I have been directly involved with the FATF in its annual plenary meetings and the mutual evaluation process serving as a law enforcement “expert.” While the FATF, and FATF-style regional bodies, have done much good and have been highly successful in bringing attention to the scourge of international money laundering, the FATF has simply not fulfilled its original mission—curtailing international money laundering. What is not openly discussed is that by the “metrics that matter,” i.e., money laundering convictions and asset forfeiture, over the last 30 years our efforts have been disappointing. As Raymond Baker, the Founding President of Global Financial Integrity said, “Total failure is just a decimal point away.”<sup>xli</sup> Money laundering enforcement has failed both in the U.S. and around the world. The reasons are many and I have written about them elsewhere.<sup>xli</sup>

Internationally, one reason for failure is that the FATF 40 Recommendations and mutual evaluation process have evolved into a procedural box checking exercise. The boxes reflect debate about whether or not a country is “compliant” with a recommendation/s. What’s lost in the discussion is the original founding intent of the FATF and the effectiveness of AML/CFT as measured by the metrics that matter. Moreover, countries are afraid of being put on the FATF “blacklist” (something that doesn’t really exist) because of bad publicity and international risk, ratings and credit concerns. So, in response to FATF pressure, countries often pass legislation or create rules or make promises to get the FATF off their back. This is all well and good. Unfortunately, I have seen in my career that after the evaluation process and the checking of boxes some countries soon go back to business as usual. Countries posture and make promises. However, they don’t have the political will to use their own initiative and truly combat AML/CFT. And, unfortunately in the arena of combating international money laundering, we are only as successful as the weakest link. The Peoples Republic of China is a classic example of a very weak link. There are others.

In the most recent 2019 FATF mutual evaluation of China, none of the issues raised in this testimony were addressed. In my opinion, the mutual evaluation was simply another box checking exercise with political overtones if not unspoken pressure (China held the presidency of the FATF during the evaluation process) that did nothing to confront CCP Inc.’s involvement with transnational SUAs and money laundering.

As I state in my book *China – Specified Unlawful Activities*, measured by SUAs and China-centric money laundering methodologies and enablers, CCP Inc. represents the greatest money laundering threat in the world. Thus, despite China’s latest mutual evaluation report, I urge the U.S. FATF delegation to build consensus within FATF to “name and shame” China. Other like-minded delegations should join the call. The same should happen in the FATF-style regional bodies of which China is a member – the Asia Pacific Group and the Eurasian Group on Money Laundering.

### **The FATF Should Create a New Recommendation that Specifically Addresses TBML**

I have written about this elsewhere,<sup>xlii</sup> and have also addressed it in previous Congressional testimony, but the international community will never seriously make progress

against trade-based money laundering (TBML) and associated crimes such as black-market exchanges and flying money unless and until the FATF creates a new recommendation that specifically addresses the issue.<sup>xliii</sup> Trade fraud is a very significant SUA for money laundering. Depending on its varied forms, TBML can also act as a money laundering technique or methodology. I believe it is the largest and most prevalent of all the money laundering methodologies. Moreover, trade fraud and TBML are inextricably intertwined with many of the CCP Inc. criminal activities and money laundering discussed. It has become part of CCP Inc.'s business model. It is time the FATF addressed the issue and create a specific anti-TBML recommendation.

### **Control the Border**

Controlling the border is the single most important countermeasure to combat the scourge of fentanyl, human trafficking, money laundering and other related criminal activity.

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<sup>i</sup> Financial Action Task Force, "What is Money Laundering?" accessed November 17, 2017; <http://www.fatf-gafi.org/faq/moneylaundering/>

<sup>ii</sup> Ibid

<sup>iii</sup> Dorothy Neufield, "Visualizing the \$94 Trillion World Economy in One Chart," Visual Capitalist, December 22, 2021; <https://www.visualcapitalist.com/visualizing-the-94-trillion-world-economy-in-one-chart/>

<sup>iv</sup> Channing Mavrellis, "Transnational Crime and the Developing World," Global Financial Integrity, March 27, 2017; <https://gfintegrity.org/report/transnational-crime-and-the-developing-world/>

<sup>v</sup> Note: Full disclosure – I am proud to be on the Board of Directors of GFI.

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<sup>viii</sup> See U.S. State Department's International Narcotics Control Strategy Report Volume II on Money Laundering. The congressionally mandated report is released in March. The 2022 report can be found here: <https://www.state.gov/wp-content/uploads/2022/03/22-00768-INCSR-2022-Vol-2.pdf>

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<sup>xxxii</sup> The definition of hawala was concisely expressed during the 1998 U.S. federal trial of Iranian drug trafficker and money launderer, Jafar Pour Jelil Rayhani, and his associates. The definition was coined by FinCEN analyst and expert witness Patrick Jost.

<sup>xxxiii</sup> According to the World Bank, “official” global remittances totaled approximately \$625 billion in 2018. According to the IMF, “unrecorded flows through informal channels are believed to be at least 50 percent larger than recorded flows.” For a full explanation and links to original sources, see John Cassara, “Money Laundering and Illicit Financial Flows,” pages 99-103

<sup>xxxiv</sup> John Cassara, *Money Laundering and Illicit Financial Flows: Following the Money and Value Trails*, Amazon Kindle Direct Publishing, 2020. Each chapter covering an individual money laundering methodology or technique concludes with recommendations. In addition, see Chapter 14, “More Forward Steps,” page 315

<sup>xxxv</sup> Judith Bergman, “China – The Massive Threat,” Gatestone Institute, September 27, 2022;

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<sup>xxxvi</sup> FBI website, International Operations; <https://www.fbi.gov/about/leadership-and-structure/international-operations#:~:text=Today%2C%20we%20have%2063%20legal,countries%2C%20territories%2C%20and%20islands.>

<sup>xxxvii</sup> I go into specifics on changing the culture and incentives in my book, *Money Laundering and Illicit Financial Flows: Following the Money and Value Trails*. See pages 316 – 318.

<sup>xxxviii</sup> The information on the FSIA draws heavily, including direct quotes, from the article “Can You Sue a Country?” Law 101, September 1, 2021; <https://laws101.com/can-you-sue-a-country/#:~:text=Although%20foreign%20nations%20enjoy%20sovereign,commercial%20and%20state%2Dponsored%20activities.>

<sup>xxxix</sup> Judith Bergman

<sup>xl</sup> Raymond Baker, *Capitalism’s Achilles Heel*, Wiley & Sons, 2005, page 173

<sup>xli</sup> John Cassara, *Money Laundering*, Chapter 2 – Sobering Statistics

<sup>xlii</sup> John A. Cassara, *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*, Wiley, 2016

<sup>xliii</sup> John A. Cassara, Written Statement for the Hearing On “Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance,” Before the Task Force to Investigate Terrorism Financing, Of the House Financial Services Committee, February 3, 2016;

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