

Written Statement of

Celina B. Realuyo¹

Adjunct Professor

The George Washington University Elliott School of International Affairs

on

**“China and the Mexican Cartels’ Asymmetrical War
through the Illicit Fentanyl Trade”**

at a Hearing on

“Follow the Money: The CCP’s Business Model Fueling the Fentanyl Crisis”

before the

Subcommittee on National Security, Illicit Finance, and International Financial
Institutions of the Committee on Financial Services
of the U.S. House of Representatives

March 23, 2024

¹ The views expressed in this testimony are that of the author and do not necessarily reflect the views of the William J. Perry Center for Hemispheric Defense Studies, National Defense University, or the Department of Defense.

Introduction

Thank you, Chairman Blaine Luetkemeyer and ranking member Joyce Beatty of the Subcommittee on National Security, Illicit Finance, and International Financial Institutions of the Committee on Financial Services for the opportunity to testify on the role of China's Communist Party in fueling the fentanyl crisis in the U.S. Exactly three years ago, just before the pandemic, I had the privilege of testifying before this subcommittee on the subject of "Global Illicit Networks and their Facilitators in the Americas: Countering the Threat from Mexican Cartels and the Opioid Epidemic." Unfortunately, the opioid epidemic, particularly the fentanyl crisis, has only worsened in the U.S. since then, thanks to the unholy alliance between China and the Mexican cartels. During the COVID-19 pandemic, the opioid epidemic, fentanyl abuse and trafficking into the U.S. exploded. Transnational criminal organizations, like the Mexican cartels and their Chinese suppliers and money runners, have exploited U.S. drug abuse and weak border security to empower and enrich themselves through the illicit fentanyl trade. Drug overdoses killed over 107,000 Americans in 2022, and fentanyl poisoning has become the leading cause of death of Americans 18-45 years of age. The fentanyl crisis is harming the health and welfare of Americans but is also consuming valuable government resources in addressing the supply and demand of the fentanyl trade. This is not only a problem for the U.S. and Canada; illicit fentanyl has been recently discovered in Brazil, Colombia, Costa Rica and Panama. This testimony will examine the U.S. opioid epidemic and the illicit fentanyl crisis, describe how China and the Mexican drug cartels are waging an asymmetrical war against the U.S. through the illicit fentanyl drug trade and recommend specific measures the U.S. and partner countries can take to address the fentanyl crisis and counter Chinese and the Mexican cartels' involvement in this drug trade that is poisoning our population.

The U.S. Opioid Epidemic

The U.S. is experiencing an ever-increasing opioid epidemic. According to the Centers for Disease Control and Prevention (CDC), an average of 136 Americans die

every day from an opioid overdose. The CDC reported a record 107,477 overdose deaths in the 12-month period ending in August 2022, mainly due to opioids. The first wave of overdoses began with increased prescribing of opioids in the 1990's, with overdose deaths involving prescription opioids (natural and semi-synthetic opioids and methadone) increasing since at least 1999. Several U.S. pharmaceutical companies, including Johnson and Johnson and Perdue Pharma, are being blamed and sued for promoting prescription opioid use and contributing to the opioid epidemic. The second wave began in 2010, with rapid increases in overdose deaths involving heroin coming from Mexico. The third wave began in 2013, with significant increases in overdose deaths involving synthetic opioids, particularly those with illicitly manufactured fentanyl. Unprecedented amounts of fentanyl and fentanyl in combination with heroin, counterfeit pills, and cocaine continue to flow into the U.S. mostly coming from China and Mexico across the southwest border.²

Opioids are the deadliest of misused drugs in the world and recorded a 71% rise in deaths over the past decade, registering increases of 92% among women and 63% among men. Demand reduction is essential in combating drug trafficking with strategies that address prevention, treatment, recovery and international cooperation. The COVID-19 pandemic had an outsized impact on both public health overall and efforts to curb drug trafficking. The pandemic altered trafficking routes, law enforcement responses, and government resources intended for counterdrug operations. While COVID-19 resulted in 1,113,229 recorded deaths in the U.S. since 2020 according to the World Health Organization, fentanyl overdoses have become the leading cause of death for Americans aged 18 to 45 since 2020. Synthetic opioids, particularly fentanyl remain the foremost drug-related threat to the United States. The extreme potency of these opioids ensures that the profit margin to traffickers is huge, even for small amounts. In contrast to the plant-based drugs used to produce cocaine and heroin, synthetic opioids are inexpensive to produce, can be manufactured anywhere without having to construct elaborate labs or processing facilities, and are easy to conceal and transport in small

² CDC/National Center for Health Statistics, National Vital Statistics System, Mortality. CDC WONDER, Atlanta, GA: U.S. Department of Health and Human Services, CDC; 2018. <https://wonder.cdc.gov>

amounts simply by mail. Further, because the chemicals used to produce illicit fentanyl still have legal uses, it is very difficult to control their diversion.

The Evolving Drug Trade and Fentanyl Crisis

The illicit drug trafficking business relies on the dynamic between supply and demand and remains the most lucrative activity of transnational criminal organizations (TCOs). These groups seek to maximize profits and sustain themselves through illicit financial flows. The illicit drug trade not only has detrimental health implications for consumers but fuels violence, insecurity, instability and corruption in nations along the production, transportation, distribution and consumption stages of this criminal enterprise. Drug trafficking is just one of the illicit activities TCOs engage in. They are also involved in human smuggling, arms trafficking, illegal mining, contraband, money laundering and public corruption. These crimes are accompanied by high levels of violence, and organized crime groups pose serious threats to citizen security and prosperity worldwide.

The illicit drug trade in the Americas has been evolving from plant-based narcotics like cocaine, heroin and marijuana to potent synthetic substances like fentanyl and methamphetamine and has expanded due emerging technologies enabling marketing and trafficking. Since the 1980's, the U.S. war on drugs was focused on countering cocaine trafficking that made the Colombian and Mexican cartels immensely wealthy and powerful. Over the past decade, U.S. drug consumption has shifted significantly from cocaine to synthetic opioids and methamphetamine that has a resulted in the tragic opioid crisis described above.

Fentanyl is a powerful synthetic opioid that produces effects such as relaxation, euphoria, and pain relief like morphine, oxycodone, methadone, and heroin, but it is some 50 times more potent than heroin. It can be used legally with a prescription, but illicit fentanyl is smuggled into the United States primarily in powder or counterfeit pill form that can be deadly in very small doses. Just two milligrams of the synthetic opioid—equivalent to 10–15 grains of table salt—is considered a lethal dose. Fentanyl has become

the leading cause of death for Americans aged between 18 and 45 since 2019, surpassing suicide, car accidents, COVID-19, and cancer.³

Mexican cartels are increasingly trafficking opioids and synthetics, particularly fentanyl in response to the changing U.S. consumer market. Cartel Jalisco Nueva Generación, Sinaloa Cartel and the Gulf Cartel are the most powerful and dangerous transnational criminal organizations in Mexico with global reach. The atomization of large Mexican cartels and increased competition to dominate trafficking routes resulted in near record levels of violence in Mexico with 31,127 homicides registered in 2022. The cartels remained active during the pandemic, trafficking dangerous drugs like fentanyl, heroin, meth and cocaine into the U.S. despite the COVID-19 lockdowns, closed borders and paralyzed international trade. Transnational criminal organizations have adapted quickly to the new pandemic environment. They have taken advantage of the fact that governments and security forces have been so focused on pandemic response rather than fighting crime. These groups are expanding their control of trafficking routes and markets and winning hearts and minds by providing COVID-related social services to marginalized communities in Mexico.

The DEA 2020 National Drug Threat Assessment published in March 2021 stated that Mexican drug trafficking organizations remain the greatest criminal drug threat to the United States. They are increasingly responsible for producing and supplying deadly fentanyl to the U.S. market. According to CBP, fentanyl seizures at U.S. ports of entry have increased over 200% in the last two fiscal years compared to the two prior fiscal years. CBP seized over 24,000 pounds of fentanyl in the last two fiscal years representing billions of lethal doses.⁴ With the pandemic lockdowns lifted and the U.S.-Mexican border reopened, drug trafficking destined for the U.S. is expected to surge as American demand for synthetic drugs like fentanyl and meth rises. The situation was exacerbated since substance abuse treatment centers were closed due to COVID-19, and emergency room visits for mental health conditions, domestic violence, child abuse, and suicide attempts increased.

³ American Addictions Center, “Fentanyl vs. Heroin: The Similarities and Differences Between Two Powerful Opioids,” September 2019, <https://americanaddictioncenters.org/fentanyl-treatment/similarities>

⁴ U.S. Customs and Border Patrol, CBP Highlights Top 2022 Accomplishments, January 30, 2023, <https://www.cbp.gov/newsroom/national-media-release/cbp-highlights-top-2022-accomplishments>

China's Role in the Illicit Fentanyl Business

China is the principal source country of illicit fentanyl and fentanyl-related compounds in the U.S., according to U.S. Customs and Border Protection. Fentanyl analogs and precursor chemicals used to make fentanyl are illicitly manufactured in Chinese labs and then sold on the Darknet and shipped in bulk to the U.S. and Mexico. After the Mexican government cracked down on poppy cultivation and heroin production, the Mexican cartels shifted from heroin to synthetic opioids like fentanyl, which are easier and cheaper to manufacture and far more profitable. The China-Mexico connection grew when Chinese traffickers increased fentanyl precursor sales to Mexican cartels that established networks of manufacturing plants, or “pill mills” of synthetic drugs.⁵ China has been accused of weaponizing and capitalizing on the fentanyl crisis in the U.S. as the supplier of chemicals to the Mexican cartels and as the money launderers for these transnational criminal organizations.

Chinese nationals are increasingly involved in illicit fentanyl operations in Mexico. The Zheng DTO (Drug Trafficking Organization), colloquially known as “Los Zheng,” operates through multiple shell companies that seemingly offer legitimate services such as chemical labs, veterinary care, computers, and retail. Mexican intelligence officials have described the Zheng cartel as having the largest presence in Mexico for trafficking fentanyl and methamphetamines. The Zheng cartel has developed extensive relationships with suppliers in China, can easily import goods from China into Mexico, and has cultivated relationships on both sides of the U.S.-Mexico border and with both the Sinaloa and Jalisco cartels. In 2018, the U.S. Attorney’s Office in Cleveland indicted two Zheng cartel leaders on 43 counts of manufacturing and shipping fentanyl analogues and 250 other drugs to 37 states and 25 countries. This Chinese cartel appears to serve as an intermediary between chemical suppliers in China and cartels in Mexico.⁶

⁵ Lauren Greenwood and Kevin Fashola, “Illicit Fentanyl from China: An Evolving Global Operation” U.S.-China Economic and Security Review Commission, August 21, 2012, <https://www.politico.com/f/?id=0000017e-7dee-d8d6-a3fe-ffef55460004>

⁶ Hollie McKay, “Chinese Cartels Quietly Operating in Mexico, Aiding U.S. Drug Crisis,” *Fox News*, November 12, 2020, <https://www.foxnews.com/world/chinese-cartels-mexico-us-drug-crisis>

After President Donald Trump personally urged Chinese President Xi Jinping to stop fueling the opioid epidemic in the United States in 2018, China announced all variants of fentanyl would be treated as controlled substances. On May 1, 2019, the Chinese government added fentanyl-related substances to their list of controlled drugs in a move aimed at curtailing the manufacturing and distribution of one of the world's most powerful opioids. The new laws were interpreted as “win” for President Trump's pressure on President Xi.⁷ Unfortunately, it does not appear that China has been enforcing these controls and continues to be the top producer of fentanyl and the precursor chemicals necessary for the illicit drug trade. Ben Westhoff, an award-winning investigative journalist who went undercover in several Chinese fentanyl operations and authored *Fentanyl Inc.: How Rogue Chemists Are Creating the Deadliest Wave of the Opioid Epidemic*, says the CCP has never curbed the production and export of illegal chemicals in China. He stressed that not only is China not doing enough to contain this industry, but they are encouraging fentanyl producers through a series of tax breaks, subsidies and other grants.⁸

The Chinese city of Wuhan is known as the fentanyl capital of the world. Following the initial outbreak of COVID-19 in 2020, disruptions to fentanyl production and supply in Wuhan set off a chain reaction that hit the production of fentanyl and methamphetamine in Mexico, which caused street drug prices to skyrocket across the United States. Non-pharmaceutical fentanyl is now increasingly being manufactured in Mexico and transported into the United States via well-established drug trafficking routes across the southwest border but still relies on Chinese precursor chemicals.

The DEA estimates that a kilogram (about 2.2 pounds) of powdered fentanyl from China can fetch a few thousand dollars, and if the powders are transformed into hundreds of thousands of counterfeit pills, it can bring in millions of dollars of profits through street sales, making fentanyl one of the most profitable illicit drugs. Fentanyl trafficking into the United States generally follows one of two pathways:

⁷ Steven Jiang and Ben Westcott, “China announces new crackdown on fentanyl in win for U.S. President Trump,” *CNN.com*, April 1, 2019 <https://www.cnn.com/2019/04/01/asia/china-us-fentanyl-trump-intl/index.html>

⁸ Dave Davies, Fentanyl As A Dark Web Profit Center, From Chinese Labs To U.S. Streets,” *National Public Radio*, September 4, 2019, <https://www.npr.org/sections/health-shots/2019/09/04/757089868/fentanyl-as-a-dark-web-profit-center-from-chinese-labs-to-u-s-streets>

1. direct purchase of fentanyl from China by U.S. individuals for personal consumption or domestic distribution and
2. cross-border trafficking of fentanyl and fentanyl-laced drugs from Mexico by transnational criminal organizations and smaller criminal networks.⁹

For years, China has been accused of fueling the opioid crisis by exporting fentanyl and exploiting the U.S. Postal Service and international express mail carriers to ship fentanyl directly into the United States. According to a federal investigation, Chinese fentanyl dealers warned their U.S.-based customers via email that private delivery companies, like FedEx, electronically tracked packages, that would allow the easy identification of mail from suspect addresses and create a trail connecting sellers and buyers of illegal fentanyl, and they informed American fentanyl buyers they would send shipments by regular mail through the U.S. Postal Service to avoid detection.¹⁰

The U.S. Postal Service (USPS) has stepped up tracking, detection and interdiction efforts to curb the fentanyl trafficking into the U.S. through the mail. Congress has ordered the agency get advanced electronic data on 100% of inbound shipments, with an urgent emphasis on parcels coming from China. By requiring data on the sender, recipient and the contents of an international parcel and incorporating new technology to scan packages, the postal service witnessed a 1,000% increase in the number of parcels seized containing synthetic opioids between 2016 and 2018. USPS saw the number of opioid parcel seizures increase by 750% domestically in the same timeframe.¹¹ In September 2020, USPS issued their Strategy on Combating Illicit Drugs in the Mail.

With significantly improved monitoring of shipments of fentanyl by mail into the U.S., Mexico has become the primary transit and production point for fentanyl and its analogs. The Sinaloa Cartel and the Jalisco Cartel New Generation (Cartel de Jalisco

⁹ FinCEN Advisory to Financial Institutions on Illicit Financial Schemes and Methods Related to the Trafficking of Fentanyl and Other Synthetic Opioids, August 21, 2019, <https://www.fincen.gov/sites/default/files/advisory/2019-08-21/Fentanyl%20Advisory%20FINAL%20508.pdf>

¹⁰ Sari Horwitz and Scott Higham, "The flow of fentanyl: In the mail, over the border," *The Washington Post*, August 23, 2019, <https://www.washingtonpost.com/investigations/2019/08/23/fentanyl-flowed-through-us-postal-service-vehicles-crossing-southern-border/?arc404=true>

¹¹ Leandra Bernstein, Most fentanyl is now trafficked across US-Mexico border, not from China," WJLA News, July 16, 2019, <https://wjla.com/news/nation-world/most-fentanyl-is-now-trafficked-across-us-mexico-border-not-from-china>

Nueva Generación – CJNG) are the most important Mexican purveyors of the drug and its precursors, although smaller criminal organizations and contractors may play significant roles in production and transport of the drug along the distribution chain. Both large and small transnational criminal organizations are exploiting the drug's popularity, and fentanyl is being laced into other substances such as cocaine, methamphetamine, marijuana and counterfeit medications without the end-user even knowing it. Rising seizures of counterfeit oxycodone, Xanax and Adderall pills laced with fentanyl illustrate that the market is evolving and adapting to consumer demand.¹² With this shift from mail shipments of fentanyl from China to cross-border movement from Mexico, border security officials have enhanced measures to detect and interdict fentanyl trafficking into the U.S. According to U.S. Customs and Border Protection (CBP), the amount of fentanyl seized by the agency skyrocketed from 2020 to 2022. In the fiscal year ending September 30, 2022, CBP seized a record 14,700 pounds of fentanyl, compared with 11,200 pounds in 2021 and 4,800 pounds in 2020. The U.S. government had seized enough fentanyl in 2021 to give every American a lethal dose, according to DEA Administrator Anne Milgram.

Mexican Cartel and Chinese Money Laundering Mechanisms Related to the Illicit Fentanyl Trade

Financing serves as the oxygen for criminal networks whose main objective is income generation from illicit activities. Transnational criminal organizations derive power from their wealth and use it to corrupt and co-opt rivals, facilitators, and/or government and security officials.¹³ Financing is essential to support and sustain the command and control, personnel, arms, communications, logistics and operations of organized crime groups. For this reason, following the money trail

¹² Steven Dudley, Mexico's Role in the Deadly Rise of Fentanyl, Fentanyl: Summary and Major Findings, *InSight Crime*, February 19, 2019, <https://www.insightcrime.org/investigations/fentanyl-summary-major-findings/>

¹³ Celina B. Realuyo, "The Future Evolution of Transnational Criminal Organizations and the Threat to U.S. National Security," *The Shifting Human Environment: How Trends in Human Geography Will Shape Future Military Operations*, Paul T. Bartone & Mitchell Armbruster, Editors, Defense and Technology Paper 107, National Defense University Press, May 2015, <http://ctnsp.dodlive.mil/2015/05/06/dtp-107-shifting-human-environment-how-trends-in-human-geography-will-shape-future-military-operations/>

and depriving criminals of illicit financial flows can disrupt and disable these networks. Through money laundering, criminals try to disguise the proceeds, sources, or nature of their illicit activities. Methods of money laundering include: the banking system, cash couriers, bulk cash smuggling, money services businesses, alternative remittance systems (hawalas), store of value, trade-based money laundering, mobile or internet payments, cryptocurrencies, non-profit organizations, real estate and front companies.¹⁴

Mexican Money Laundering Schemes: The Mexican cartels are among the richest and most powerful transnational criminal organizations in the world that engage in drug and human smuggling; they have become the predominant traffickers of fentanyl into the U.S. and resort to various methods to move and launder their money. While the Mexican cartels continue to practice cross-border bulk cash smuggling, the cartels have turned to shell companies to launder millions of dollars, through an intricate scheme that involves national and international money transactions. Criminals use straw men to create these companies, including real state companies, jewellery stores, and consulting services. All these companies recorded transactions that do not match their tax returns. Furthermore, the money laundering network employs housewives, students and bank tellers. In 2014, the Mexican Financial Intelligence Unit found four companies that sent and received resources to hide the origin and destiny of the resources. The four companies were created on the same day in 2012 and had the same address and the same legal representative, who turned out to be a straw man. After it launched an investigation into a more complex money laundering scheme, it found that four shell companies received and transferred MXN 3,523.2 million in less than two years. These companies were linked with another three companies that were being investigated for working for the Sinaloa Cartel.¹⁵

¹⁴ Celina B. Realuyo, "Leveraging Financial Intelligence to Counter Transnational Threat Networks in the Americas," *U.S. Southern Command Dialogo Magazine*, March 2019 Special Edition, English: <https://dialogo-americas.com/articles/leveraging-financial-intelligence-to-counter-transnational-threat-networks-in-the-americas/>

¹⁵ Zorayda Gallegos, "Mexican drug cartels used these shell companies to launder money," *El Universal*, June 6, 2020, <https://www.eluniversal.com.mx/english/mexican-drug-cartels-used-these-shell-companies-launder-money>

Trade-based money launderers (TBML) continue to engage in a sort of parallel method of transferring money and value around the world. These methods often entail the alteration of shipping documents or invoices and are frequently undetected. The Black Market Peso Exchange (BMPE), one trade-based money laundering scheme, is a popular mechanism used by Mexican cartels to collect money from their drug sales in the U.S. without having to take the risk of smuggling bulk amounts of U.S. currency across the Mexican border and without having to convert and wire the U.S. currency through established financial institutions, which not only carries transaction fees, but also a threat their illegal activity will be detected.

In a BMPE scheme, a peso broker works with an individual engaged in illegal activity, such as a drug trafficker, who has currency in the U.S. he needs to bring to a foreign country, such as Mexico, and convert into pesos. The peso broker finds business owners in the foreign country who buy goods from vendors in the U.S. and who need dollars to pay for those goods. The peso broker arranges for the illegally obtained dollars to be delivered to the United States-based vendors, such as the stores in the Fashion District, and these illegally obtained dollars are used to pay for the goods purchased by the foreign customers. Once the goods are shipped to the foreign country and sold by the foreign-based business owner in exchange for pesos, the pesos are turned over to the peso broker, who then pays the drug trafficker in the local currency of the foreign country, thus completing the laundering of the illegally obtained dollars.¹⁶ The growing network of U.S. Trade Transparency Units (TTUs) is intended to combat this method of money laundering through the monitoring of import and export documentation. These units focus on detecting anomalies in trade data—such as deliberate over- and under-invoicing—that can be a powerful predictor of TBML.

¹⁶ U.S. Immigration and Customs Enforcement, Large-scale law enforcement effort targets downtown Los Angeles businesses linked to money laundering for drug cartels, September 14, 2014, <https://www.ice.gov/news/releases/large-scale-law-enforcement-effort-targets-downtown-los-angeles-businesses-linked>

Cyberspace and cryptocurrency are the new frontier for the Mexican cartels and their facilitators, battling for control of vast criminal markets for drugs, arms, sex, people and money. To track the use of Bitcoin and other cryptocurrencies designed to anonymize users, the Mexican government instituted a new law in 2018 that requires all registered cryptocurrency trading platforms to report transfers above 56,000 pesos (\$2,830). Bitcoin's use to launder money is particularly increasing among the Jalisco New Generation and the Sinaloa cartels, according to U.S. and Mexican authorities. Mexican cartels are believed to launder an estimated at \$25 billion a year in Mexico alone.

Criminals typically split their illicit cash into small amounts and deposited them in various bank accounts, a technique known as "smurfing." The threshold for banking transactions that raise red flags is \$7,500. They then use those accounts to buy a series of small amounts of bitcoin online, obscuring the origin of the money and allowing them to pay associates elsewhere in the world. According to the DEA, both Mexican and Colombian transnational criminal organizations are increasing their use of virtual currency because of the anonymity and speed of transactions, and the use of virtual currency will only expand in the future.¹⁷ The pandemic accelerated the digitalization of illicit networks in their use of cryptocurrencies in drug trafficking and money laundering activities.

Chinese Money Laundering Brokers: Chinese money laundering rings have been increasingly moving the drug proceeds of the Mexican cartels earned in the U.S. In February 2020, the U.S. Department of the Treasury described Chinese money launderers as "key threats" and vulnerabilities in the U.S. financial system. A December 2020 Reuters investigation found Chinese money launderers have come to dominate the international money laundering market. In April 2021, the Department of Justice reported that three individuals pleaded guilty to their involvement in a conspiracy to launder at least \$30 million of drug proceeds combined throughout the U.S. on behalf of foreign drug trafficking organizations,

¹⁷ Diego Oré, "Latin American crime cartels turn to cryptocurrencies for money laundering," *Reuters*, December 8, 2020, <https://www.reuters.com/article/mexico-bitcoin-insight-idUSKBN2811KD>

including Mexico's Sinaloa Cartel. These guilty pleas are the result of a nearly four-year investigation into the relationship between foreign drug trafficking organizations and Asian money laundering networks in the United States, China, Mexico, and elsewhere. The defendants converted drug proceeds into Chinese and Mexican currency through a variety of methods, including "mirror transfers" in which financial transactions in the U.S. are used to trigger the release of equivalent funds into bank accounts in China, with those funds then being used to purchase Chinese goods that are subsequently sold by merchants in Latin American countries, including Mexico.¹⁸

Among the defendants in this case, U.S.-based Chinese citizen, Gan Xianbing, was sentenced to 14 years in prison for running a scheme where money from Mexican criminal groups was picked up in Chicago, transferred to bank accounts in China and then ultimately sent back to Mexico. In 2018, Gan handled approximately \$534,206 in drug money before being arrested at Los Angeles Airport in November 2018, during a layover while flying from Hong Kong to Mexico. It is difficult to know exactly how much money Chinese nationals have laundered for cartels, but in the Gan case alone, the Department of Homeland Security (DHS) estimated his operation laundered between \$25 million and \$65 million. Gan has since become the most well-known, but far from the only, Chinese money launderer connected to some of Latin America's most dangerous criminal groups, including the Sinaloa Cartel.¹⁹

Many of these Chinese brokers are also engaged in legitimate business and use that business as cover for and to further money laundering activity. Once the drug proceeds were in the hands of the launderers, they contacted one among a network of Chinese-owned businesses in the U.S. and Mexico and asked them to transfer a correspondent amount of money through Chinese banking apps. This happened entirely

¹⁸ U.S. Department of Justice, April 14, 2021 Press Release, Three Members of Transnational Money Laundering Network Pleaded Guilty to Aiding Foreign Drug Trafficking Organizations, <https://www.justice.gov/usao-edva/pr/three-members-transnational-money-laundering-network-pleaded-guilty-aiding-foreign-drug>

¹⁹ Chris Dalby, How Chinese Criminals Secretly Move Millions for Mexico Cartels, *InSight Crime*, May 12, 2021, <https://insightcrime.org/news/chinese-money-launderers-mexico-cartels-move-millions-secret/>

through China's domestic banking system and outside the purview of U.S. authorities. This technique also allows the laundering process to avoid scrutiny in China. China's financial regulators limit private individuals from handling more than \$50,000 in foreign currency, and any transfers surpassing this limit must be granted special dispensation. However, there is no such limit on domestic transfers. It is unclear to what extent the businesses and people used to move this money within China are even aware of the illegal nature of these transactions, making it all the more difficult to crack down on these techniques.²⁰ These types of laundering schemes offer a mechanism for Mexican cartels to access profits while limiting exposure and risk. Chinese money launderers leverage encrypted mobile communications apps like WeChat to move vast sums of money from the United States to China then back to Mexico with great speed, discretion and efficiency.²¹

Why are the Mexican cartels increasing turning to Chinese money launderers? They are far more efficient and charge far less for their services, and the Chinese desperately need access to U.S. dollar hard currency. For years, the Mexican cartels that supply the U.S. market with cocaine, heroin and fentanyl smuggled truckloads of bulk cash to Mexico, where they used banks and exchange houses to move the money into the formal financial system. They also employed middlemen, often Colombian or Lebanese specialists who charged as much as 18 cents on the dollar, to launder their billions. Those methods were costly, time consuming and exposed the stockpiled cash to risks like damage, robbery, confiscation. Moreover, U.S. and Mexican anti-money laundering measures created serious obstacles for Mexican cartels to launder their income generated in U.S. dollars.

In 2017, the DEA began to track a Chinese-American gangster named Xizhi Li, who devised an innovative money laundering system that revolutionized the drug underworld and fortified Latin American cartels. Li and his fellow Chinese money launderers provided a bridge between drug lords wanting to get rid of dollars and a

²⁰ *Ibid.*

²¹ Drazen Jorgic, "Special Report: Burner Phones and Mobile Banking Apps: Meet the Chinese Brokers Laundering Mexican Drug Money," *Reuters*, December 3, 2020. <https://www.reuters.com/article/us-mexico-china-cartels-specialreport/special-report-burnerphones-and-banking-apps-meet-the-chinese-brokers-laundering-mexican-drug-money-idUSKBN28D1M4>

Chinese elite desperate to acquire them, according to an investigation by the Drug Enforcement Administration. While China's security forces normally tightly control and monitor its state-run economy, Li and others moved tens of millions of dollars among Chinese banks and companies with seeming impunity. Nothing happens in China without the knowledge and permission of the CCP.

Li had a network of money couriers in Chicago comprised of students, waiters, drivers, who did not have criminal records or carry guns, to interact with Mexican drug traffickers. After the handoff of drug proceeds, the couriers alerted their Chinese bosses in Mexico, who quickly sent pesos to the bank accounts or safe houses of Mexican drug lords. Li then executed a chain of transactions through China, the U.S. and Latin America to launder the dollars. His powerful international connections made his service cheap, fast and efficient; he even guaranteed free replacement of cartel cash lost in transit. This new model eclipsed the competition.²² As they investigated Li's tangled financial dealings, U.S. agents came across evidence indicating that his money laundering schemes involved Chinese government officials and the Communist Party elite, according to court documents and national security officials. Chinese criminal rings exploited a landscape in which more than \$3.8 trillion of capital has left China since 2006, making the country the world's top exporter of hot money.²³

According to an August 2021 report by the U.S.-China Economic and Security Review Commission, the PRC's cooperation with the U.S. has lagged in money laundering investigations, criminal prosecution, and legal assistance in ongoing cases. Chinese regulatory authorities continue to delay requests for access to inspect and investigate potential sites of illegal chemical production where precursors are made. Requests are often delayed for days, allowing any illegal operation to vacate or clean up the premises.²⁴ The U.S. State Department estimates that \$154 billion in illicit funds a year passes through China. Some U.S. officials argue that Chinese authorities have

²² Sebastian Rotella and Kirsten Berg, "How a Chinese American Gangster Transformed Money Laundering for Drug Cartels," *ProPublica*, October 22, 2022,

<https://www.propublica.org/article/china-cartels-xizhi-li-money-laundering>

²³ *Ibid.*

²⁴ Lauren Greenwood and Kevin Fashola, "Illicit Fentanyl from China: An Evolving Global Operation" U.S.-China Economic and Security Review Commission, August 21, 2012,

<https://www.politico.com/f/?id=0000017e-7dec-d8d6-a3fe-ffef55460004>

decided as a matter of policy to foster the drug trade in the Americas and turned a blind eye to associated money laundering in order to destabilize the region.²⁵ The Chinese are profiting from the illicit fentanyl business cycle, generating income from the export of fentanyl and precursor chemicals to the Mexican cartels at the front end of the business and then earning a percentage by laundering the drug proceeds for the cartels at the back end.

Conclusions and Recommendations

The illicit fentanyl crisis is worsening by the day as the U.S. continues to log record numbers of fentanyl overdoses and poisonings. This drug trafficking is enriching and empowering the Mexican cartels and their Chinese chemical suppliers and money runners. The Chinese and the cartels are waging an asymmetrical war against the U.S. through the fentanyl drug trade that is killing thousands of Americans and consuming vast government and private sector resources in the prevention, treatment, and supply interdiction aspects of drug addiction. Classic asymmetrical warfare refers to a conflict in which the resources of adversaries are uneven, and consequently, they may attempt to exploit each other's relative weaknesses. In this case, the Mexican cartels and the Chinese are exploiting America's weaknesses: our appetite for illicit drugs like fentanyl or fentanyl-laced drugs and the porous southwest border.

The U.S. and partner nations must intensify their efforts against the illicit fentanyl crisis through drug demand and supply reduction, narcotics detection and interdiction, and counter-money laundering measures to keep up with the rapid changes in the production, marketing, financing and delivery of synthetic drugs like fentanyl. The following measures can contribute to countering illicit fentanyl trafficking and the asymmetrical war being waged by the Chinese and Mexican cartels:

1. Permanently place fentanyl-related substances (FRS) into Schedule I of the Controlled Substances Act (CSA) to empower law enforcement's ability to

²⁵ Sebastian Rotella and Kirsten Berg, "How a Chinese American Gangster Transformed Money Laundering for Drug Cartels," *ProPublica*, October 22, 2022, <https://www.propublica.org/article/china-cartels-xizhi-li-money-laundering>

bring those involved in trafficking and producing of illicitly manufactured synthetic opioids to justice.

2. Designate the Sinaloa Cartel and the Jalisco Cartel New Generation (Cartel de Jalisco Nueva Generación – CJNG) as Foreign Terrorist Organizations (FTOs) - foreign organizations engaged in terrorist activity that threatens the security of U.S. nationals or the national security (national defense, foreign relations, or the economic interests) of the United States. This would provide U.S. government agencies expanded powers to pursue and freeze the assets of the cartels and their collaborators, including American and Chinese facilitators under the material support of terrorism statute.
3. Hold China accountable for the export of fentanyl and pre-cursor chemicals used for illicit narcotics through specific punitive measures like threatening to withdraw most favored nation status, imposing tariffs or applying multilateral diplomatic pressure from partner countries also suffering from drug trafficking.
4. Reinforce U.S. border security to detect, interdict and prevent the flow of fentanyl and fentanyl-laced drugs into the U.S.
5. Revitalize U.S.-Mexican cooperation to curb drug production, trafficking and the laundering of drug proceeds under the auspices of the Bicentennial Framework for Security, Public Health, and Safe Communities that is aimed to protect our people, prevent transborder crime, pursue criminal networks and disrupt illicit financiers.
6. Detect, disrupt and prosecute Mexican and Chinese money laundering networks associated with the fentanyl crisis in the U.S. and abroad.
7. Leverage digital and financial intelligence to detect and disrupt the use of cryptocurrencies in counternarcotics operations.
8. Establish specialized units or task forces at the national and international levels to share intelligence and investigate digital illicit financial flows, identify and seize assets and detect, dismantle and deter organized criminal networks engaged in the illicit fentanyl drug trade.

9. Decrease U.S. drug demand and educate Americans of all age groups on the opioid epidemic and deadly dangers from fentanyl-laced counterfeit drugs and opioids.
10. Identify, monitor and dismantle online illicit drug markets and the use of social media for the marketing, sale and promotion of drug consumption, especially to minors, and consider duty of care requirements to reduce the risk of harm to users.