



Research Note

Chinese Money Laundering in North America

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In this research note, I focus on the activities of Chinese money laundering groups in North America. My central argument is that these groups are important players in a triangular illicit trafficking network between China, the U.S. and Canada, as well as with Mexico and Central America. The first leg of the network is that methamphetamine and fentanyl precursor chemicals are trafficked from China to Mexico. The second leg is that these chemicals are processed into illegal drugs and trafficked by Mexican drug trafficking organisations (DTOs) into the U.S. and Canada. The third leg is that Chinese money laundering groups launder the profits from this trade by offering U.S. dollars to Chinese citizens wanting to engage in capital flight. In addition, they send counterfeit goods from southern China to Mexico, with the sale of these goods releasing pesos for the Mexican DTOs.

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Introduction

The triangular trafficking network existing in North America is not the only triangular money laundering network which exists. For example, the Asia/Pacific Group on Money Laundering has identified a three-stage network (McCarthy-Jones, Doyle and Turner, 2020: 2-3). Firstly, funds from a drug-consumption country are remitted by a DTO to a second country, typically in Asia where the funds are used to purchase goods. Secondly, the goods are exported from that country to the drug-producing country and sold, thus providing the DTO with funds. Finally, the DTO exports the illegal drugs to the drug-consumption country.

The North American triangular illicit trafficking network is one component of the overall money laundering of illicit groups. Other prominent components include bulk-cash smuggling and virtual currencies. However, my focus on the triangular illicit trafficking network highlights the interdependencies between China's emerging role as a licit and illicit global hub. China's growing role in the global economy is paralleled by its role in the global illicit economy.

Chinese money laundering organisations in North America have acquired considerable notoriety in recent years. Their activities in Vancouver have facilitated illegal drug trafficking from Chinese and Latin American drug groups, as well as capital flight from wealthy Chinese. The scale of their operations has led the provincial government in British Columbia to undertake a number of public inquiries into the nature of money laundering in the province (German, 2019, 2019; Maloney, Somerville and Unge, 2019) as well as to establish the Cullen Commission of Inquiry into the problem.

In the U.S. Chinese money laundering groups have facilitated similar illicit activities, although on a much larger scale as compared to Canada. The U.S. has been concerned primarily about the massive volume of illegal drug trafficking into the U.S. by Chinese and Latin American DTOs. The growing role of Chinese money launderers has been recognised in facilitating this trafficking (U.S. Department of Treasury, 2018; U.S.. Drug Enforcement Administration, 2019).

The operations of Chinese money laundering groups are important, since they facilitate the functioning of the huge North American market for illegal drugs. They launder the proceeds from Chinese, Latin American and other criminal groups operating in North America. Chinese counterfeit goods are also a lucrative market for them in the Americas. Furthermore, they facilitate capital flight from wealthy Chinese wanting to shift their money offshore.

On the supply side of the illicit trafficking networks, southeast coastal China, particularly in Guangdong, Fujian, Hubei and Zhejiang provinces, are major source regions for Chinese transnational crime. Precursor chemicals needed for methamphetamines and fentanyl manufacture are produced by chemical firms in these regions. Counterfeit goods manufacturers are able to insert their products in global supply chains originating particularly from the Pearl River Delta in Guangdong province. Business and financial intermediaries in Hong Kong and, to a lesser extent Macau, link the licit and illicit economies in China to global markets (Langdale, 2017).

Global legal and illegal economies

The legal and illegal global economies are tightly interrelated. Globalisation presents opportunities for criminals to enter new markets and diversify their operations. Global supply networks of multinational firms are interlinked with the global logistics chains of illegal drug traffickers, wildlife smugglers and counterfeit goods manufacturers. Global integrated financial, communication and transportation systems underpin both economies (OECD, 2016; Gilman, Goldhammer and Weber, 2014: 3).

The global legal and illegal economies are constantly changing because of globalisation trends and new economic hubs and routes. Crime networks feed on phases of global economic expansion. The ultimate points of consumption of the main illicit products are highly developed economies (North America, Europe, and East Asia) (European Commission and the French Institute for International Security and Strategic

Affairs, 2017: 11). As a result, it is no surprise that China's rise to global importance in the legal economy has been paralleled in the illegal economy.

Transnational criminal networks are much like legitimate organisations in that they are driven by market forces and aim to make profits. Transnational criminal networks need to consider two interrelated issues: supply chain links and transactions costs. They can use their own networks to bridge the links, or they can outsource them if it is cheaper. The outsourcer might be part of the criminal organisations broader network or might be an independent operator dealing with numerous criminal groups (Rabasa, 2017: 26). Chinese money laundering groups have grown rapidly by providing efficient services to DTOs.

Illegal activities follow legal activities and routes. Criminal organisations and activities are not the underground part of globalisation, but a central part of it. Money laundering is intrinsically connected with the legal economy (European Commission and the French Institute for International Security and Strategic Affairs, 2017: 11). Chinese money laundering networks parallel China's growing global trade and investment linkages, with the networks operating prominently in the major regions of economic activity: North America, Europe and the Asia-Pacific region (Holmes, 2014: 6; U.S. Department of Treasury, 2018: 17-18), although they are active in Africa laundering the proceeds of illicit wildlife trafficking (Environmental Investigation Agency, 2017).

Chinese money laundering groups perform the standard functions of global financial services firms, which match supply and demand and earn commissions on the international transfer of funds. In particular, the greater the diversity of illicit activities, the more they are able to net out the funds to minimise the actual transfer of funds. I focus on the money laundering function in the context of the changing economic patterns of globalisation that are linking North America to China and Mexico. Chinese criminal groups have operated internationally in the past (Mahlmann, 2005; U.S. Library of Congress, 2003: 3). However, the opening up of China's economy has enhanced globalisation of Chinese criminal groups (Holmes, 2014: 6).

Displacement and linkage effects are critical in Chinese transnational crime. Displacement effects refer to the results of a crackdown on corruption and crime in China which results in illegal activities being displaced to other countries in Southeast Asia (UNODC, 2019). As a result, illicit financial networks in the Asia-Pacific region are becoming more complex given that illicit trafficking is taking place in multiple locations across the region.

Displacement effects are also at work in the North American illegal drugs industry, with direct trafficking of methamphetamines and fentanyl from China being displaced by tighter law enforcement in the U.S. The trafficking of fentanyl by mail has dried up, but precursor chemicals are sent to Mexico and fentanyl is produced, which is then trafficked to the U.S. (Gilroy, 2020; Felbab-Brown, 2020).

Secondly, a linkage effect is also at work, since many Chinese criminal groups are “piggybacking” on the globalisation of China’s legal economy, through international trade linkages and the Belt and Road Initiative (BRI). New BRI transport and infrastructure projects are already linking China to countries around the world, many of whom have high corruption levels, weak governance and high susceptibility to criminal infiltration (Lo, Siegel and Kwok, 2020; Dezensk, 2020). Chinese criminals are taking advantage of this situation to expand into these countries.

Chinese money laundering organisations

Chinese money laundering organisations launder dirty money for transnational criminal organisations for a fee. They sell their services to any criminal organisation and thus are not confined to ethnically Chinese criminal networks (Soudijn and Kleemans, 2009). They perform similar functions as international financial service intermediaries in the legal economy in overcoming hindrances to global financial transactions.

Successful criminal activities produce large amounts of cash, which must be “laundered” to be useful and to obscure its illegal origins (Reuter and Truman, 2004). The growing globalisation of illicit activity has meant that money launderers must develop

schemes that facilitate the placement, layering and integration of the proceeds of crime. Chinese money laundering organisations have become very effective in facilitating this laundering process.

Chinese money laundering organisations are part of a broader category of Professional Money Laundering Networks (PMLNs) identified by the FATF (2018). PMLNs charge a commission or fee for laundering the proceeds of criminal activity. The first stage (placement) is that the criminal proceeds (generally cash) are transferred to or collected by the PMLNs. The proceeds are introduced into the financial system through cash-intensive businesses, underground banking networks or casinos (FATF, 2018: 18). The second stage is a layering one executed by the PMLN network, whereby the funds are transferred via trade-based money laundering (TBML) or underground banking, often using shell company accounts. The third stage (integration) is when the laundered funds are handed back to the criminal organisation.

Chinese money laundering organisations are adept at handling large volumes of cash. They are called cash controller networks and charge a processing fee to the criminal organisation (FATF, 2018: 19-20). Their low fees stem partly from their ability to “piggyback” their illicit financial transactions on the huge volume of licit trade between China and North and Central America.

Underground banking networks are a tool used by PMLNs with the aim of bypassing the regulated financial sector. Chinese underground banks play an important role in Chinese money laundering organisations. They are a form of Informal Value Transfer Systems (IVTS), which are also referred to as hawala, a system which generally nets out transfers between parties so that little money is transferred internationally. They are used for both licit and illicit financial transactions, but because of Chinese government regulations, they are not able to operate in the licit economy. They play a prominent role in Guangdong and Fujian provinces in facilitating money laundering for various transnational criminal enterprises (Zhao, 2012: 16). The most common form of money laundering used by underground banks is TBML. In addition, underground banks play

an important means of capital flight out of China, although the Chinese government has been cracking down on their operations.

Chinese money laundering in Vancouver

Vancouver is a major West Coast port in Canada and has strong trade, investment and migration linkages with China and the rest of the Asia-Pacific region (Ley, 2020). British Columbia has a long history of Chinese immigration (German, 2018: 37), and Vancouver has more direct mainland Chinese flights than any other airport in North America or Europe, reflecting Vancouver's large Chinese population and proximity to the Asian region (Slutsken, 2017).

Vancouver's location makes it an ideal hub in the illicit economy, with illegal drugs (fentanyl, methamphetamines) trafficked from Asia (Schneider, 2020: 31). Vancouver's port and airline proximity to Mexico means that it a natural gateway for illicit drugs trafficked into Western Canada (Smart, 2020).

Chinese criminal groups have used Vancouver as a hub for importing drugs from Asia and then distributing them to the North American market. Vancouver was seen as an easy entry for illegal drugs as early as the 1980s (Gomis, 2019). This is partly a result of the so-called "balloon effect," whereby drug traffickers have turned increasingly to Canada because the U.S. has strengthened its law enforcement efforts (displacement effect). Latin American drug cartels used the easier movement of people and goods under the North American Free Trade Agreement (NAFTA) to increase their activities (linkage effect) (Leduc and Lee, 2003: 37-38).

The British Columbia government has undertaken numerous policies to attract wealthy immigrants, particularly Chinese. These policies were a significant factor in housing prices in Vancouver being the least affordable of any city in North America (Ley, 2020: 3). While much of the incoming Chinese capital was legally earned, some was illicit in origin and a large percentage was transferred violating Chinese government

limitations on foreign transfers of renminbi (capital flight). However, it is virtually impossible to uncover the size of the illicitly earned and transferred capital.

The Vancouver Model

The Vancouver Model of Chinese transnational crime and money laundering consists of two interrelated transfers of illicit money by Chinese money laundering organisations (Langdale, 2017). Firstly, Chinese underground banks launder money from the sales of illegal drugs (Chinese and Latin American criminal groups) earning a commission on the transactions. Some of the illegal drug money was laundered through British Columbia's casinos. Secondly, Chinese money laundering organisations make available Canadian dollars for wealthy Chinese in Canada (capital flight) (Schneider, 2020: 26). They provide them with money for gambling and/or investment in the Vancouver property market, again earning commission on the transfers (German, 2018). The Chinese money laundering organisations are generally able to net these transfers out, so as to minimise actual international transfers of funds (German, 2019).

Chinese money laundering groups have positioned themselves across major sectors of the illicit economy: illegal drug trafficking and Chinese capital flight. It is likely that they also launder money earned in other illicit areas such as prostitution and loan-sharking. Jewellery is also used in laundering proceeds of crime in British Columbia (Schneider, 2020: 99) and luxury vehicles (German, 2019: 183).

The first circuit of illicit money is associated with illegal drug trafficking: methamphetamines and precursor chemicals are sent from Southern China to Vancouver, with cocaine coming from Latin America (FATF, 2018: 34; German, 2018: 37). The drugs are then distributed to British Columbia, as well as to the North American market. Chinese money launderers are involved in the laundering of the proceeds, with various sectors, such as housing, cash-intensive businesses and casinos, playing a key role in the laundering process.

A FATF report on professional money laundering organisations provides a case study of the Vancouver Model (FATF, 2018: 34). An underground bank (Company X), the name is not mentioned in the FATF report but press reports have identified it as Silver International (Hoekstra, 2019). It offered its services to transnational criminal organisations, including Mexican, Asian and Middle Eastern criminal groups. It is estimated that it laundered over CAD\$1 billion per year through an underground banking network.

A second circuit of illicit financial flows is capital flight from wealthy Chinese wanting to invest overseas, particularly in real estate. This capital is not necessarily illegally earned, but exceeds the stringent restrictions of US\$50,000 per annum imposed by the Chinese government on its citizens. Again, Chinese money laundering organisations and British Columbia casinos facilitate the laundering of this money in Vancouver.

The FATF (2018: 34) report found from the case study (Company X) that the mechanism to achieve capital flight was that the Chinese gambler would transfer funds to accounts controlled by the criminal in exchange for cash in Canada. However, funds were never transferred out of China to Canada. The value of funds was transferred through the underground bank, with the money launderer receiving a 2-5% commission on each transaction. The Chinese gamblers would phone a contact to schedule cash delivery, usually in the casino parking lot, which was then used to buy casino chips. Some gamblers would cash in their chips for a British Columbia casino cheque, which they could then deposit into a Canadian bank account. Some of these funds were used for real estate purchases. The cash for the gamblers came from the sale of narcotics at an average rate of CAD \$1.5 million a day (FATF, 2018: 34).

After the cash was dropped off at the Company X, funds were released offshore by the money launderer. Most transactions were held in cash and avoided the tracking that is typical for conventional banking. As the money laundering operation grew, the money transfer abilities of Company X became increasingly sophisticated to the point where it

could wire funds to Mexico and Peru, allowing drug dealers to buy narcotics without carrying cash (FATF, 2018: 34).

Chinese and other global organised crime groups are particularly flexible in their operations and it is unlikely that the Vancouver Model will remain fixed for any length of time. In particular, the British Columbia Government's adoption of tighter regulations around casinos and foreign ownership of real estate will reduce the attractiveness of Vancouver both for Chinese capital flight and global illegal drug groups; some reports have indicated that suspicious cash transactions in Ontario's casinos have risen (Cooper, Russell and Hill, 2020).

The Vancouver Model illustrates the ability of Chinese money laundering groups to position themselves across major areas of transnational crime and derive revenue streams from the international financial transfers. Illegal drug trafficking and capital flight are both growing significantly, thus contributing to the profitability of the money laundering groups.

Vancouver illustrates the displacement and linkage effects underlying other areas of Chinese transnational crime. Looser regulation of money laundering and transnational crime in Vancouver as compared to the U.S. led to a "balloon" or displacement effect, with criminals operating in cities that had less law enforcement activity. Furthermore, Vancouver operates as a major West Coast port and airline hub, thus enabling criminal groups to "piggyback" on legal trade flows (linkage effects).

Chinese money laundering in the U.S.

Chinese money launderers have operated in North America for some time. Passas (2020) points out that as early as 2000, Mexican drug traffickers were using non-bank financial institutions to launder money to China to purchase goods such as clothing items. These goods were exported to Mexico through the US in-bond system. After the goods arrived in the U.S. for trans-shipment to Mexico, the cargo was falsely declared to be US-manufactured goods, thus avoiding the high Mexican customs duties applied to many

Chinese imports. These goods were then sold in Mexico at discounted rates, providing traffickers with 'clean' pesos for their illicit proceeds (Passas, 2020: 252-3).

North America represents an attractive market for international criminals, since it is a huge integrated market for illicit products. The scale of the market means that Chinese and Latin American criminal groups have developed sophisticated global and regional operations to serve the North American demand for illicit products. Asian money launderers play an important role in facilitating the operation of global illicit networks centred on North America. Initially, Asian money launderers were involved in trafficking of illegal goods and services from China (e.g., illegal drugs, counterfeit goods, illegal migration) (Zhao, 2012), but in recent years they have moved to provide money laundering services for criminal groups from other countries (U.S. Drug Enforcement Administration, 2019: 9).

Chinese money launderers have positioned themselves across major areas of transnational illicit activity and have been able to collect commissions on these transactions. The three key markets are: illegal drug trafficking, Chinese capital flight and counterfeit goods trafficking, all of which have been growing rapidly. As a result, their activities in the North American market are very lucrative.

Firstly, Chinese money launderers launder money for DTOs to and from China: cocaine is trafficked from the Americas to the Asia-Pacific region, while methamphetamines, synthetic opioids (e.g., fentanyl) and precursor chemicals are trafficked to the Americas. The illegal drugs trafficked to North America have led to the accumulation of large quantities of local currency in the destination market (Canada and the U.S.).

The second area of their operations facilitates capital flight from China. Chinese capital flight represents a massive illicit outflow of money from China that violates overseas capital transfer restrictions imposed by the China government on its citizens (U.S. \$50,000 per annum). Wealthy Chinese send their money overseas for a variety of reasons and are looking to access foreign currencies to make their investments.

Investments in U.S. housing have been particularly attractive for Chinese nationals, although the inflows have decreased in recent years given the geopolitical tensions between the U.S. and China (Zheng, 2019). Generally, wealthy Chinese deposit money via Ali Pay or WeChat into the money launderers' account in China. The money is then used to purchase counterfeit goods or precursor chemicals in China for international trafficking.

The third area is the trafficking of counterfeit goods. China accounts for between 70 to 80% of the world's counterfeit goods and substantial sums are generated by the sale of these goods globally. One reason for the size of the Chinese counterfeit industry is that they have developed excellent skills in manufacturing, particularly in locations such as the Pearl River Delta, a region adjacent to Hong Kong, which has a skilled labour force and an excellent global logistics network. Secondly, Chinese counterfeit goods are a particularly attractive means of laundering money into North and South America because the fakes are difficult to detect and give criminal groups a "cover" for retrieving their laundered funds.

Chinese approaches to money laundering

Chinese criminal groups have used a number of different approaches to TBML. An early version was the "Guangzhou Enterprise", which involved the sale of Latin American cocaine in Guangzhou in Guangdong Province, as well as the trafficking of illegal drugs from Asia to the Americas (methamphetamines and precursor chemicals) by Chinese criminal groups (Daugherty, 2015).

The sale of cocaine in Guangzhou led to brokers laundering U.S. dollar proceeds. The U.S. dollars were laundered through casinos in Macau as well as through importers/exporters in exchange for money not linked to drug trafficking. They identified Colombian or other South American businesses that needed U.S. dollars to purchase counterfeit goods (U.S. Department of Justice, 2016). Chinese counterfeit goods were "exported" to Colombia and other Latin American countries. The "Guangzhou

Enterprise” yielded about US\$5 billion in narcotics proceeds before the principals were arrested.

A reciprocal relationship across the Pacific developed between China/Hong Kong on the one hand and Latin American DTOs on the other; Hong Kong provided intermediary services and anonymity via shell companies. The Latin American DTOs provided cocaine destined for the Asia-Pacific market, which was funnelled through Hong Kong and China (Harris, 2015).

Latin American DTOs have used the Black Market Peso Exchange (BMPE) from the 1990s (FATF, 2013: 37). This is a well-established money laundering technique for the proceeds of cocaine trafficking by Latin American DTOs into the U.S. (U.S. White House, 2019). In the past, Latin American DTOs controlled the entire drug production, transportation, distribution and laundering process (Pasquali, 2020).

However, Latin American DTOs were faced with laundering massive amounts of cash and the use of Asian money launderers was one way of reducing the problems of dealing with this volume of cash. Bulk cash money laundering has been declining over time, although it is difficult to verify the total cash transfers (U.S. Department of Treasury, 2020: 23-24). Latin American DTOs now use the services of Chinese cash controller networks capable of transferring vast sums of cash on their behalf and who receive a processing fee (FATF, 2018: 19). In recent years, Chinese money launderers, amongst other professional money launderers, have provided money laundering services for Latin American groups, and work jointly with Mexican, Colombian and Dominican DTOs (U.S. Drug Enforcement Administration, 2019: 108).

The shift towards using Chinese and other Asian money launderers has been facilitated in part by the huge volume of licit trade with China. These are, in effect, linkage effects flowing from licit trade to the illicit market. For example, it is relatively easy to insert counterfeit goods into the massive licit trade flows from China to North America. Furthermore, the use of a Chinese money broker simplifies the money laundering process

and streamlines the purchase of precursor chemicals used in the manufacture of synthetic opioids (Knierim, 2018).

Mexican DTOs use Asian money launderers to facilitate money movement across a variety of methods, including TBML, Chinese underground banking networks, cryptocurrencies and even bulk currency storage and shipment (U.S. Drugs Enforcement Administration, 2019: 109). Cryptocurrencies are becoming more important. For example, the U.S. Department of Treasury has sanctioned the Zheng drug trafficking organisation for trafficking fentanyl and other synthetic opioids and laundering the proceeds in part by using digital currencies such as Bitcoin and transmitted the proceeds into and out of bank accounts in China and Hong Kong (US Department of Treasury, 2020). The massive amount of money to be laundered makes it essential to diversify the money laundering methods.

Chinese money laundering groups linked to Mexican DTOs maintain a presence in major U.S. cities, as well as other countries, including China, Mexico, Belize and Hong Kong. In one case study, a Chinese money broker who operated a money laundering network in Mexico City coordinated several pickups of the DTO's drug proceeds in multiple U.S. cities to be returned to Mexico. The money laundering groups worked for all the major Mexican DTOs (Leaked DEA, HSI, and FBI Report Exposes 'New Fusion' of Mexican Cartels Contracting Chinese Money Laundering Organizations in Chicago, 2020).

The scale of money laundering for the cocaine and fentanyl illegal drug trafficking market in North America is huge although it is difficult to accurately estimate its size. A report by Global Financial Integrity came up with a wide range of estimates of the value of narcotics-related illicit financial flows affecting the U.S., Mexico and Colombia: their estimate would be the midpoint of US\$ 80-90 billion a year (Yansura and Kumar, 2020: 4).

The methods used by money launderers vary widely given the scale of the trafficking of narcotics. Yansura and Kumar (2020: 28) point out that expert respondents

and official sources in different countries came up with somewhat different emphases as to the most important methods used, but amongst the most common methods are TBML, bulk-cash smuggling, funnel accounts and real estate. Funnel accounts generally involve a bank account in one geographic area that receives multiple cash deposits from which the funds are moved quickly to a different location (US Department of Treasury, 2020b).

Chinese money launderers provide an Asian version of the standard BMPE model. The Chinese variation of the BMPE in the US. involves Latin American DTOs, Chinese money launderers and Chinese counterfeit goods manufacturers. The first step in the BMPE is the sale of cocaine and/or fentanyl which gives the traffickers large sums of U.S. dollars. For Latin American DTOs, the problem is to exchange these dollars for Mexican pesos, since Mexican banks will not accept large amounts of U.S. dollars (U.S. Department of Justice, 2019).

Chinese money brokers, processors and money couriers facilitate the money laundering network. Chinese brokers in Mexico coordinate with Latin American DTOs to receive pesos in exchange for drug profits earned in the U.S. (U.S. Department of Treasury, 2020a: 25). The DTO instructs a courier to provide U.S. currency to the Chinese broker's U.S. processor. The processor then launders the cash and identifies U.S.-based buyers, often Chinese citizens wanting to obtain U.S. dollars, which effectively facilitates Chinese capital flight. Chinese citizens transfer renminbi through their Chinese bank accounts to a Chinese account controlled by the money broker. The broker then uses the renminbi to buy counterfeit goods for export to Mexico. The broker or the DTO then sells the goods in Mexico for pesos (U.S. Department of Treasury, 2020a: 25).

A key strength of Chinese money launderers is that they have streamlined the purchase of licit and illicit trade of goods and chemicals (e.g., precursor chemicals) imported from China (U.S. Drug Enforcement Administration, 2018: 126). They have become leaders in the last few years in laundering illegal drugs for Latin American DTOs due to a combination of charging lower fees and the efficiency of the services they provide (U.S. Drug Enforcement Administration, 2019: 121).

TBML schemes often use incorrect contents, prices and quantities for disguising money laundering transactions. They may also issue multiple invoices for the same goods or services; provide more or less goods than the declared amount (U.S. General Accountability Office, 2019: 4). In addition, the Chinese criminal group will often “export” counterfeit goods from China. Generally, Chinese transnational criminal organisations transfer funds to and from China and Hong Kong using front companies as part of their international money movement schemes (U.S. Department of Treasury, 2018: 17).

One Asian variation to the BMPE is for the drug trafficker to provide U.S. dollars to a broker who ships goods from the Los Angeles Fashion or Garment District, commonly clothing, cosmetics, jewellery or sportswear, to a retailer in Mexico, who then sells the goods for pesos and pays the broker (U.S. Immigration and Customs Enforcement, 2014; Ormseth, 2020). A major problem for global criminals emerged in 2020 at the height of the Covid-19 pandemic that the Chinese connection to the BMPE seized up because of the closure of international borders. The border closure meant that supplies of precursor chemicals from China were limited and the price of methamphetamines in the U.S. began to skyrocket. Drug traffickers increased the price of the methamphetamines but also had to resort to bulk-cash smuggling because of the Mexican border restrictions (McGahan, 2020).

While Los Angeles is a major money laundering centre for Latin American illegal drugs, it is by no means the only place for TBML schemes. An Oregon case study in 2019 involved a Chinese money launderer which needed to solve two problems: one was that Latin American DTO had U.S. dollars that they wanted to transfer back to Mexico but weren't able to because of currency restrictions. Secondly, wealthy Chinese were engaged in capital flight and wanted to transfer money to the U.S., either to gamble or to invest in U.S. property. The Chinese money launderer facilitated the transfer of funds from the buyer's Chinese bank account to another Chinese bank account held by the money launderer. Once the Chinese renminbi was transferred between these accounts, funds

were used to purchase counterfeit goods which were then “exported” to Latin America (U.S. Department of Justice, 2019).

In another case involving Chinese defendants living in the U.S., Mexico and other Central American countries, the U.S. Department of Justice alleges that the defendants facilitated the money laundering of the proceeds of the sale of cocaine from Mexico. The defendants allegedly took drug profits and transmitted them to banks in China or used the funds to purchase U.S. goods and shipped them to China for sale. Finally, goods were purchased in China and shipped to Latin America and the Mexican drug cartels were paid for the drugs (U.S. Department of Justice, 2020b).

The Vancouver Model alerted U.S. law enforcement authorities to the role of Chinese money launderers that could be laundering Mexican illegal drug money into Las Vegas casinos while facilitating Chinese capital flight (Camacho, 2019). The U.S. Department of Justice has convicted several Chinese citizens over a money laundering enterprise involving Las Vegas casinos. The casino connection comes from the fact that Chinese money launderers sell U.S. currency to Chinese high-roller gamblers who are unable to transfer money out of China. The gamblers then complete the purchase of the U.S. currency by transferring a reciprocal amount to the broker’s Chinese bank account using WeChat Pay or Alipay (U.S. Department of Justice, 2020a; Camacho, 2019). The broker transfers funds from his account into the drug group’s bank account in China. Finally, the drug group uses the money to purchase fentanyl from Chinese manufacturers to clean the money using a TBML scheme (Camacho, 2019). Alternatively, the drug gang could buy counterfeit goods in Southern China and then “export” these to North America. The Chinese underground money brokers advertise on popular Chinese internet forums and brokers pay finder’s fees to casino hosts or junket operators.

The U.S. case studies illustrates the ability of Chinese money launderers to position themselves across major areas of transnational crime and to profit by charging commissions on these activities. In some respects, they are similar to international financial intermediaries, which operate in different countries and which leverage their

strengths and take advantage of market opportunities in the different countries. They have diversified their operations by marketing their services to a diverse range of global criminal groups operating in the North American market. They have also “piggybacked” their operations on the huge volume of licit trade between China and North America.

Conclusions

Chinese money laundering groups play an important role in globalisation of the North American illicit economy, since they launder money from criminal groups trafficking illegal drugs and counterfeit goods and facilitate illicit capital flight from China. A key strength of Chinese money launderers in the North American illegal drugs trafficking market is that they are able to offer a low-cost service for Latin American, Chinese and other global DTOs selling drugs in North America. In addition, they are able to “piggyback” off the massive international trade flows from China and “export” counterfeit goods to Latin America in order to obtain “clean” pesos as payment for the Latin American drug cartels. Chinese criminal groups use the massive Chinese chemical industry to divert chemicals into the manufacture of precursor chemicals and fentanyl destined for the North American market (Gilroy, 2020; Felbab-Brown, 2020). Furthermore, Chinese money laundering groups facilitate capital flight of wealthy Chinese. The Vancouver Model reflected this demand from wealthy Chinese for investment in housing. These North American illicit markets have been growing rapidly and Chinese money laundering groups have positioned themselves across the growth markets.

Chinese money launderers rely on the smooth functioning of the global economy. However, the current massive health, economic and geopolitical changes convulsing the global economy will lead to fundamental changes to this model in the future. It is likely that the flexibility and adaptability of Chinese criminal groups will allow them to adapt their operating model to these changes. Despite this flexibility, the next five years will be

challenging for global criminal organisations operating in North America given the scale of changes in their operating environment.

We have seen that China's global illicit activities have been affected by displacement and linkage effects. Displacement effects have occurred because tighter law enforcement in the U.S. has pushed illicit activities to regions that have weaker law enforcement such as Vancouver, Mexico and other Latin American countries. Linkage effects are also at work, with closer economic integration through international free trade agreements (e.g., NAFTA and its replacement agreement USMCA) involving the U.S., Canada and Mexico. Large volumes of international trade shipments have allowed illegal drug traffickers to make undetected shipments through border crossings.

It is difficult to predict what is likely to happen in the future given the momentous changes that are taking place in the global economy at present. Some of the likely future changes include:

- China's globalisation of the licit economy is expanding, particularly with the massive expenditure on the BRI. These projects are facilitating expansion of both the licit and illicit economy. Many transport and communications projects are being built in highly corrupt countries (e.g., Myanmar, Laos and Cambodia) and are likely to enhance the global operations of illegal drug gangs.
- China and the U.S. are locked into trade and geopolitical disputes over the nature of China's globalisation. It is very difficult to forecast how these geopolitical disputes will impact on globalisation, but it is likely that there will be higher barriers to direct trade and investment between China and the U.S. China's illicit trafficking to the U.S. is likely to take place through intermediary countries in Southeast Asia and/or Latin America. Thus, global money laundering flows will become more complex.
- The Covid-19 pandemic of 2020 has had significant impacts on the nature of globalisation, particularly with respect to global supply chains centred on China.

As a result, global supply chains for illegal drugs, counterfeit goods and other illicit products have also been negatively affected with borders being closed.

- Capital flight from China may increase as a result of the uncertainty over Hong Kong's future. Hong Kong business and financial intermediaries play a central role in facilitating capital flight from China and it is likely that wealthy Chinese may increase their transference of capital to "safe havens".

I have focused on economic issues driving the globalisation of Chinese crime and money laundering in North America. However, these economic issues are intertwined with broader geopolitical ones. It is not possible to outline these in detail, but a number are relevant in shaping Chinese transnational crime and money laundering activities.

Firstly, considerable concern has been expressed about the geopolitical impact of the Chinese-led BRI on countries around the world, especially for those which are highly corrupt and have significant crime problems (Dezensk, 2020). For example, improved transportation and communications linkages between China and Southeast Asian countries via the BRI have facilitated international trade, but also enhanced illicit transactions, in such areas as illegal drug and illegal timber trafficking. Similarly, Harsono (2020) has pointed to the role of BRI projects in Panama's Colon Free Trade Zone as increasing the scale of money laundering and illicit activity, particularly in casino and tourism projects. It is difficult to forecast the future impact of BRI projects, but they are likely to enhance the role of corrupt developing countries as hubs for illicit trade and finance.

Secondly, various reports in Canada have raised concerns over the linkages between Chinese criminal groups and Chinese government influence (Manthorpe, 2019; Canada. The National Security and Intelligence Committee of Parliamentarians, 2020). Furthermore, in a report by Canadian security and law enforcement agencies (Project Sidewinder) that was leaked to the press it was argued that the Chinese government and criminal groups have been collaborating in drug trafficking, money laundering and other illicit activities (Mitrovica and Sallot 2017). In addition, it has been alleged that Chinese

illegal casinos operating in Toronto have linkages with criminal groups, as well as with Chinese government lobby groups such as the Canadian Alliance of Chinese Associations, a pro-Beijing group (Gibbs, 2020).

Thirdly, the geopolitical dispute between China and the U.S. over the nature of China's globalisation and has led to considerable speculation that a "decoupling" of global supply chains will occur; such a decoupling may reduce direct illegal trafficking between the two countries. However, it is difficult to see a major "decoupling" taking place given the existing tight economic interlinkages between the economies. Ongoing geopolitical tensions is likely to lead to more complex global supply chains emerging involving other countries such as those in Southeast Asia (Vietnam, Cambodia and Myanmar), as well those in Latin America, particularly Mexico and other Central American countries. As a result, global criminal groups may restructure their operations and develop new global production and supply chains incorporating these intermediary countries.

Covid-19 has significantly reduced the quantity of illegal drugs being trafficked into the U.S., particularly across the U.S.-Mexican border (Mustian and Bleiberg, 2020), with flow-on impacts on the supply of precursor chemicals for methamphetamines and fentanyl production supplied from China. It is likely that Covid-19 originated in Wuhan in China, which happened to be one of the world's leading suppliers of the chemicals used to manufacture methamphetamines and fentanyl. The supply of these chemicals ceased when Wuhan was locked down for some months (McGahan, 2020). Furthermore, these blockages have had repercussions on money laundering in Los Angeles, with the BMPE restricted in its operations given that the Fashion District in Los Angeles was shut down, a favoured location for laundering illegal drug proceeds (Ormseth, 2020; McGahan, 2020). Drug cartels have had to shift back to the much riskier bulk-cash smuggling across the border.

Little is known as to implications of Covid-19 on global supply chains in the illicit economy. The border restrictions imposed globally have restricted illegal drug trafficking (UNODC, 2020), but it is likely that criminal groups will find alternative drug trafficking

routes. Similarly, it is likely that Chinese money laundering groups will find alternative ways of overcoming the current blockages in the illicit global supply chains and financial networks.

The crackdown on crime in China is leading to Chinese criminal groups using other countries as bases to traffic illicit goods to North America (displacement effect). An example of this displacement effect is in the methamphetamines market, where Shan state in Myanmar has taken over from China in the production and trafficking of the drug (UNODC, 2019). It is possible that fentanyl production may undergo a similar shift (Beech and Nang, 2020). These displacement effects will make it more difficult for law enforcement to intercept illegal drugs, given that they will be trafficked from a wider range of countries.

The economic perspective on Chinese money laundering networks in North America connects changes taking place in the globalisation of the illicit and licit economies. China's rising global economic and geopolitical influence makes clear the importance of this perspective, but also the difficulties of understanding the complex economic and geopolitical forces at play.

The North American case study illustrates the emergence of a triangular illicit trafficking network linking continents. However, the trafficking networks in other regions are likely to be different, reflecting the inherent flexibility and entrepreneurial abilities of Chinese criminal enterprises to adapt to different opportunities and law enforcement constraints (Mahlmann, 2005; Library of Congress, 2003). For example, considerable concern has been expressed in Europe about the entry of Chinese criminal groups and their alliances with local gangs (e.g., the 'ndrangheta and the Camorra in Italy) (Antonelli, 2020; Europol and OHIM, 2015). These European and Chinese crime linkages are leading to more complex money laundering schemes, some of which involve cryptocurrencies (Europol, 2019: 52; Vedrenne, 2019). The flexibility and entrepreneurial ability of Chinese criminal enterprises combined with China's growing global reach make Chinese money laundering organisations a major long-term threat to global security.

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