



ICAIE

INTERNATIONAL COALITION AGAINST ILLICIT ECONOMIES

March 29, 2023

Statement for the Record

The Honorable Blaine Luetkemeyer, Chairman
The Honorable Joyce Beatty, Ranking Member
U.S. House Subcommittee on National Security, Illicit Finance, and International Financial
Institutions, Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry, Chairman
The Honorable Maxine Waters, Ranking Member
U.S. House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

Dear Distinguished Chairs Luetkemeyer, McHenry and Ranking Members Beatty, Waters,

Thank you for holding the important hearing entitled, “Follow the Money: The CCP’s Business Model Fueling the Fentanyl Crisis”, on March 23, 2023.

Your hearing on the harms and impacts of the deadly illicit fentanyl trade is very timely. We applaud the leadership of the House Financial Services Committee and its Members for focusing on this important national security issue that deserves greater attention by the U.S. Government, and communities devastated across the nation given fentanyl’s destructive and lasting effects on our children and families.

On behalf of the International Coalition Against Illicit Economies (ICAIE), we are submitting this letter, as well as our earlier Congressional testimony on the CCP’s role in furthering these dangerous cross-border illicit threats and a recent ICAIE report on illicit trade, as a statement for the record.

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National Security Impacts of CCP's Corruption and Criminality in Expanding Global Illicit Economies

Today, the Chinese Communist Party (CCP) is arguably one of the world's biggest transnational illicit trade syndicates and a prolific enabler of crime and corruption globally, whose complicity in the fentanyl illegal trade is killing thousands of Americans every month.

In my [testimony](#) during the 117th Congress to the U.S. Senate Finance Committee hearing on the impacts of China's illicit economies to U.S. national security, I underscored our growing concerns on how CCP's role in fueling greater corruption and criminality in many parts of the world is harming not only U.S. competitiveness, but also endangering the public health and safety of Americans, and those living across the community of democracies globally.

In fact, the CCP has leveraged corruption, illicit markets, and predatory trade and lending practices to become a dominant illicit player across global markets, supply chains, and digital marketplaces. Such CCP criminalized activities are helping China to also finance its economy and military and thereby bolster public support for the ruling CCP regime.

It is critically important to inform Americans and the international community on the CCP's role in fueling the global illegal economy through the illicit manufacturing and unauthorized exporting of harmful products, such as the chemical precursors to make deadly fentanyl and other opioids, fake goods that can cause great bodily harm or death, and other contraband that hurts our industries, supply chains, and economy.

Corruption and illicit trade are among the enabling drivers of CCP's national aspirations to global economic power, and to advance its aggressive foreign policy and great power competition strategies. China's illicit trade facilitates a convergence of crimes that spawns bigger destabilizing threats across the international community. In 2022, the Office of the U.S. Trade Representative (USTR) in its annual [report](#) unequivocally stated: "We are clear-eyed about China's doubling down on its harmful trade and economic abuses".

These predatory market efforts penalize entrepreneurship, exploit theft of trade secrets, infringe on intellectual property rights, and launder dirty monies derived from an array of corrupt foreign transactions, illegal trade, and illicit markets.

The CCP is also involved across an array of other illicit trade and dark commerce activities including the trafficking of humans, counterfeits, and endangered wildlife, as well as money laundering, trade-based money laundering, and other contraband sold in black markets and across the digital world.

The effects of CCP's illicit trade and illicit economies are multifaceted threats, and are further multiplied by its malign influence in the United States, as the U.S. Department of Justice has noted on numerous occasions.

The Damning Effects of the Illicit Fentanyl Trade

Among the most serious harms to our homeland and health and safety of American citizens is the lethal trade in fentanyl, synthetic opioids, and precursor chemicals from China.

Fentanyl overdose has become the leading cause of death for young Americans since 2019. Such dangerous contraband is killing tens of thousands of Americans each year. Its potency is fueling the addiction crisis in the United States, especially when it is mixed with heroin, cocaine, or xylazine to increase profits for the Mexican cartels and other criminal organizations in their narco-trafficking operations.

Illicit activity such as the illegal fentanyl trade not only harms our people – killing tens of thousands of young Americans each year – it also becomes a threat multiplier. It enables Mexican cartels—e.g., Sinaloa and Cartel de Jalisco Nueva Generación (CJNG)—to earn tens of billions of dollars a year in dirty money, some of which is laundered in China, and the financing enables the cartels to infiltrate the Mexican government and CCP’s corruptive influence to penetrate legitimate sectors and supply chains.

Significant quantities of fentanyl flow from China through Mexico and Canada, as well as arriving directly in the U.S. from China. Most fentanyl or fentanyl analogs (as well as other synthetic opioids), pill presses, and binding agents are smuggled through legal points of entry and via international mail carriers.

Selling fentanyl on-line via the open internet in China and the “dark” web in the U.S. has also become prevalent. In recent years, as the U.S.-China Economic and Security Review Commission has [noted](#), there has been no substantive curtailment of fentanyl flows from China to the U.S. due to weak regulations governing pharmaceutical and chemical sectors in China. Moreover, in China webs of corruption and criminality have complicated both U.S. and Chinese law enforcement agencies’ ability to disrupt manufacturing, distribution, and trafficking of illicit drugs, including fentanyl and chemical precursors into Canada, Mexico, and the United States.

Curtailing the dirty money derived from the illegal fentanyl trade is critically important. The U.S. Government must make tracking the illicit financial flows of both Chinese and Mexican money launderers and their enablers a higher priority, especially unraveling the various illicit finance methodologies and anonymous shell companies that are fueling the current fentanyl crises across borders. This includes the numerous money laundering methods that John Cassara has outlined in his testimony, such as Chinese fei-Chien (flying money), trade-based money laundering, black market exchanges, cash couriers and bulk cash smuggling, and various informal value transfer services such as hawala-style transfers and newer technologies that enable transfer of digital assets that also offer greater anonymity.

When these illegal drugs converge with other criminal activities across illicit economies, the overall threat becomes multiplied many times over. Such crime convergence fuels greater violence, corruption, insecurity, instability, and sometimes conflicts around the world.

Crime Convergence: A CCP Threat Multiplier Across Illicit Industries

Chinese state-sponsored hackers and criminals are stealing the intellectual property (IP) of the United States and American companies. The annual cost to the U.S. economy of intellectual property theft, pirated software, and economic espionage of U.S. trade secrets are estimated to be as high as \$600 billion. China is responsible for much of this IP crime, hurting American innovation, competitiveness, good-paying jobs, and economic growth.

Another harm to American and global security is driven from China's illegal trade and unregulated economy and the flooding of counterfeits and often-times dangerous and toxic fake products into US markets and online marketplaces, including medicines and other pharmaceuticals, foodstuffs, footwear and apparel, toys, electronics, personal protective equipment (PPE). According to some estimates, China accounts for up to 80 percent of all counterfeits in the global marketplace which the OECD has [estimated](#) at \$500 billion per year.

The proliferation of counterfeited electronics also endangers our national security and the safety of our troops when fake parts or computer microchips make their way in our military systems, weaponry, and supply chains.

Counterfeit and fake pharmaceuticals is an illicit market which generates billions of dollars for criminal entrepreneurs. According to a 2019 Better Business Bureau [study](#), companies based in China, Hong Kong, Singapore, and India shipped 97 percent of the counterfeit medicines seized in the U.S. Across numerous illicit trafficking routes, Chinese counterfeit medicines arrive in American, European, and other markets around the world in dangerously high volumes.

Chinese state-sponsored hackers and criminals are stealing the intellectual property (IP) of the United States government and American companies, hurting our innovation, competitiveness, and economic growth. As a 2022 Global Financial Integrity [report](#) highlights, China is responsible for 50 to 80 percent of international IP theft.

For years, Chinese demand for illegal wildlife products has driven a global trade in endangered species including iconic animals such as rhinoceros, tigers, elephants, pangolins, bears, and so many other animals. Often times, these illicit products have included the role of unsavory actors such as the cartels, terrorist organizations, or rogue regimes like North Korea.

Environmental criminal activities not only harm our natural world, but contribute to climate change, and converge with other illicit activities such as corruption, forced labor, human smuggling, and sex trafficking.

The [U.S. Department of State](#) has also continually flagged China's abusive human rights, forced labor, and human trafficking activities, including as part of its BRI efforts.

CCP's Role in Expanding Illicit Economies

China exploits every illicit market to its advantage as the largest player in almost every major sector of transnational crime. We are talking about several trillions of dollars in illicit proceeds every year that are being generated from the predicate offenses for money laundering that touch China's jurisdiction and markets, and finance China's authoritarian regime.

In our own ICAIE report ([July 2022](#)), "[The Dark Side of Illicit Economies and TBML: Free Trade Zones, Ports, and Financial Safe Havens](#)", we stressed how ports across the Americas continue to be exploited or remain vulnerable to transnational criminal organizations that corrupt officials and strategically use maritime shipping as logistical platforms to move tens of billions of dollars worth of illegal drugs, illicit goods, and contraband. China controls all or portions of 37 major ports in Latin America. Through the exploitation and control of FTZs and ports across the Americas, and its Belt and Road Initiative (BRI), China is able to expand illicit trade operations in the region, and other parts of the world. In other parts of the world, China "owns" strategic ports and other critical infrastructure in countries that are so heavily in debt to CCP's unconscionable loans that they are struggling to repay such Chinese financial bailouts.

Cybercrime, virtual currency, and online e-commerce have further enabled some criminals to convert electronic funds in China into hard currency overseas, including in real estate markets in Canada and other financial safe havens.

At these levels of illicit trade and China's complicity, one could argue that the CCP is the biggest transnational illicit trade syndicate driving today's global illegal economy and related corruption.

The state-sponsored corruption exported through its strident foreign policy is sanctioned at the top level of government through China's state-owned enterprises or through its external economic development initiatives such as the Belt and Road Initiative (BRI).

Where China saddles countries with BRI loans to build critical infrastructure, or "debt traps" as some recipients aptly refer to them, this financial activity begins a vicious cycle of kleptocracy by a cadre of corrupt officials in both China and recipient countries. In many of these failed debt-ridden BRI projects, it provides the means for China to recoup its investment through the control of strategic national assets such as seaports, or through commodities and natural resources that have greater "value" to China in its aim for global economic hegemony.

The BRI global footprint tracks some of the biggest illicit trade routes known for corruption, money laundering, and the trafficking of narcotics, weapons, counterfeits, humans, illegally-mined natural resources, and other contraband.

The House Financial Services Committee should encourage the Intelligence Community to undertake greater intelligence, data analytics, and data mapping that can show overlays of illicit routes and

criminal networks across BRI markets and how China is helping to expand and bridge a super highway of illicit economies globally, exporting forced labor practices, and violating human rights of both Chinese and local workers. These innovative technological and data analytics can also help to pinpoint China-Mexico illicit fentanyl trafficking flows and to conduct greater law enforcement disruptions, investigations, and prosecutions.

China's economic exploitation, reliance on cheap labor, and unfair trade practices in BRI projects are against the spirit of free trade, put U.S. competitiveness at a disadvantage, and hamper the ability of U.S. firms to compete in these markets.

Sanctioning and Targeting CCP's Corruptive Influence and Criminality

China is an adversary but we must hold CCP accountable for their corruption and criminality including through targeted sanctions, robust law enforcement engagement, and constructive diplomatic engagement that strengthens the political will to crack down on the illicit fentanyl trade, counterfeiting, money laundering, and other trafficking crimes.

Through the gleaned strategic intelligence by ICAIE and partners to date, there is clear and convincing evidence that distinctly and emphatically demonstrates that CCP is sabotaging legitimate commerce and siphoning away the economic prosperity of nations who play by the global trade system of rules, and by the rule of law.

It is equally clear that China exploits almost every illicit industry to its advantage, often being the largest player in the global illegal economy.

As John Cassara, an ICAIE Board Member, highlighted in his new book, *China – Specified Unlawful Activities: CCP Inc., Transnational Crime and Money Laundering*, several trillions of U.S. dollars in illicit proceeds every year are generated from predicate offenses or specified unlawful activities for money laundering that touch China's jurisdiction and markets, and are often used to finance China's authoritarian regime.

Why has the CCP done little to curb the production and export of illegal chemicals and other illicit goods in China? Because it is so darn lucrative. The CCP remains unapologetic in its national policies to leverage all licit and illicit ways and means to achieve greater global economic power, with such policies continuing to generate staggering amounts of illicit wealth that will further damage market stability, erode the integrity of the international financial system, and endanger the competitiveness of American industries, the rule of law, and the public health and safety of people across societies.

While China can distract attention away from its role in transnational crime through disinformation, malign influence, and other state-sponsored subversive acts, the reality remains that it is sustaining its economy, prosperity, and global competitiveness through being a key driver of global cross-border crime and corruption.

If the United States and the international community are committed to using the next decade to secure a rules-based world order and to ensuring greater democracy and transparency across the world, understanding China's global rise through the mechanics of money-laundering, trade-based money laundering, and crime convergence is critical to protecting these values.

The CCP government continues to turn a blind eye to the cross-border illicit threats that are seriously harming the United States, and shows little inclination to cooperate with the international law enforcement community in combatting many of the criminal activities and corresponding money laundering methodologies outlined in our statement.

The U.S. and international community must confront, sanction, and constructively engage China to be a more responsible global leader and market citizen of the world in addressing a multitude of the illicit threats that harm U.S. national security. In addition to designating the Mexican cartels as Foreign Terrorist Organizations, the United States should consider sanctioning the CCP as a Transnational Criminal Organization and an extraordinary threat to our national security under the International Emergency Economic Powers Act ([50 U.S.C. 1701 et seq.](#)) (IEEPA). Such sanctions would truly capture CCP's widespread profiting from illegal fentanyl trafficking, money laundering, and global illicit trade. This would call out their corruptive influence and criminality in their foreign policies, operations, and the international financial system, and the urgent threat they present to national economic markets, the rule of law, democracy, and the well-being of our citizens and industries.

We must hold the CCP more accountable while holistically prosecuting the fight against the illegal fentanyl trade, corruption, criminalized markets, counterfeiting, and predicates to money laundering in order to better protect our citizens, communities, trade secrets, industries, and national interests.

Sincerely,



David M. Luna
Executive Director
<https://ICAIE.com/>

Attachments

- 1) David M. Luna, "The Impact of China's Illicit Economies to U.S. National Security, Testimony (PDF) before U.S. Senate Committee on Finance, Fiscal Responsibility and Economic Growth Subcommittee, July 14, 2021, accessible at: <https://www.finance.senate.gov/hearings/defending-and-investing-in-us-competitiveness>.
- 2) ICAIE, "The Dark Side of Illicit Economies and TBML: Free Trade Zones, Ports, and Financial Safe Havens", July 2022, accessible at: <https://icaie.com/2023/03/the-dark-side-of-illicit-economies-and-tbml-free-trade-zones-ports-and-financial-safe-havens/>.
- 3) John Cassara, "China – Specified Unlawful Activities: CCP Inc., Transnational Crime and Money Laundering", **Foreword by David M. Luna**, Executive Director, ICAIE, accessible at: <https://www.johncassara.com/index.html>. (Copies of the Book shared with HFSC during the testimony of John Cassara, ICAIE Board Member, March 23, 2023.)