



# ICAIE

INTERNATIONAL COALITION AGAINST ILLICIT ECONOMIES

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## **Unraveling China's Impact: Exploring Taxation, Illicit Trade, and the Nicotine Market in the United States (Harms to U.S. National Security)**

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Thank you Mike [Stojsavljevich] for the warm introduction. I would also like to thank all of the Congressional staffers here today from the various committees and associations in the U.S. House of Representatives for the opportunity to participate in today's important discussion on the national security implications related to China's illicit trade in counterfeits, prescription drugs, fentanyl, nicotine products, other illicit consumer goods, and related crime convergence, corruption, and money laundering.

Over the years, in both my US government and private sector capacities, I have grown concerned about the increasing corruptive influence, criminality, and undemocratic force for chaos, inhumane brutality, and global insecurity advanced by China's Communist Party (CCP), the de facto ruling elite.

In particular, China's predatory illicit activities around the world are troubling as they are penalizing entrepreneurship, exploiting theft of trade secrets and critical information, infringing on intellectual property rights, exerting malign influence, and laundering dirty monies derived from an array of corrupt foreign transactions, criminality, and hubs of illicit trade across the Americas, and globally.

In fact, as FBI Director Christopher Wray testified earlier this month before the House Judiciary Committee, "There is no country, none, that presents a broader, more comprehensive threat to our ideas, our innovation, [and] our economic security than the Chinese government and the Chinese Communist Party."

Make no mistake, China exploits every illicit market to its advantage, acting as the largest player in almost every major sector of transnational crime.

As a result, we are talking about several trillions of dollars in illicit proceeds every year that are being generated from the predicate offenses for money laundering across black markets and the digital world that touch China's jurisdiction and markets, and finance the CCP authoritarian regime, China's national economy, and its military.

China's current financial woes and spiraling downward economy will only further its illicit trade, nationalism, and further geopolitical uncertainty and military aggression.

It is widely-known that the trade in illicit goods deprives governments of much-needed tax revenue, and that taxation often incentivizes criminals to exploit greed crimes and further expand illicit economies globally.

Currently, as the Executive Director of the International Coalition Against Illicit Economies (ICAIE), a national security-centric NGO in Washington DC that helps bring partners across sectors to tackle illicit economies and related corruption and money laundering, we are working to ensure that the US Government brings greater accountability to the CCP government, and encourage China not to turn a blind eye to the multi-dimensional illicit threats that are seriously harming the United States.

Through evidence-based research, threat intelligence, and dialogue, we aim to ensure that there are stronger policy and law enforcement actions to combat many of the criminal activities and corresponding money laundering outlined in our recent ICAIE reports, testimonies, and statements.

### **A CCP Threat Multiplier Across Illicit Industries**

Let me now share specific impacts of CCP criminality that I believe are harming US national security and impacting our communities, and numerous American brands across industries.

It is critically important to show how Chinese infiltration across corporate America, especially in those companies doing business in China, abusive and intrusive governance, IP theft, [lawfare and third-party funded litigation](#) that extort corporate resources and trade secrets from our most innovative companies, and illicit trade in fentanyl and fake goods are hurting U.S. competitiveness and our American industries, supply chains, economy and jobs, and greatly harming the health and safety of our citizens.

Among the most serious harms to our homeland and the 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.

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 illegal drugs and illicit goods into Canada, Mexico, the United States, and other markets through Free Trade Zones (FTZs).

While it is commendable that Secretary of State Antony Blinken established a new [coalition](#) of nations to counter the threat posed by illicit synthetic drugs, the United States must press China harder to stop these illicit flows and dismantle criminal operations behind illicit trade in fentanyl and other illegal goods.

I do agree with Secretary Blinken, however, that the role of the private sector is indispensable, including manufacturers, shipping companies, social media platforms, banking and online payment processors, and other sectors because this illicit trade is built on the pillars of legitimate global commerce.

Curtailing the dirty money derived from the illicit trade is critically important.

The U.S. Government must make tracking the illicit financial flows of both Chinese and Mexican money launderers, other global criminal syndicates, and their enablers a higher priority, especially unraveling the various illicit finance methodologies and anonymous shell companies that are fueling illicit trade across borders.

This includes the numerous money laundering methods that ICAIE Senior Advisor [John Cassara](#) has outlined in his new Book, “[China - Specified Unlawful Activities - CCP Inc, Transnational Crime and Money Laundering](#)”, and new ICAIE Report on “[Mobile Payments and Mirror Swaps](#)”, These include

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.

### **National Security Impacts of CCP’s Crime Convergence**

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 even conflicts around the world.

China’s illicit trade also facilitates a convergence of crimes that spawns bigger destabilizing threats across the international community, as Dr. Louise I. Shelley, Director of the Terrorism, Transnational Crime and Corruption Center (TraCCC), George Mason University, has noted in her book, “[Dark Commerce: How a New Illicit Economy is Threatening Our Future](#)” (also [available](#) now in Chinese, “

暗黑經濟：不法交易如何威脅我們的未來” ) .

In fact 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”.

Let me touch on some other sectors harmed by China’s illegal and illicit trade when converged across global markets and supply chains further impact U.S. national security.

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 is 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.

**Every IP-protected product can be counterfeited:** 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).

As a factory to the world, China’s illegal production is being generated not only from state-owned enterprises (SOEs) but among some of its registered companies.

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.

**China's Illegal Tobacco Trade:** Like other forms of illicit trade, the illegal tobacco trade is incredibly profitable for criminal organizations. According to an earlier Department of State [report](#), the illicit trade in tobacco products costs governments and taxpayers between \$40 billion and \$50 billion annually in tax revenues. China National Tobacco Corporation (CNTC) produces nearly half of the world's cigarettes, and has aggressively ramped up efforts globally on the illegal tobacco trade, forging new markets from Africa and Europe to the Americas.

Tests on counterfeit cigarettes from China showed each cigarette had up to 80% more nicotine and emitted up to 130% more carbon monoxide than legally produced in regulated markets.

The Americas has witnessed a significant increase in China's presence as a major player in the illicit tobacco trade. Seizures of contraband Chinese cigarettes have become frequent in the region, with significant quantities found in Brazil, Canada, Colombia, Ecuador, Nicaragua, Panama, Paraguay, the United States, and other countries. The impacts include increased health risks, struggling local industries, and a loss of an estimated \$6 billion annually in tax revenue in Latin America.

CNTC's strategy involves mass smuggling of products to expand the market, then lobbying for legalization. Panama serves as a primary gateway for Chinese cigarettes into Latin America, exploiting loose regulations within its Colón Free Trade Zone (CFZ) to import tax-free cigarettes or manufacture them locally.

CNTC's network of Chinese tobacco subsidiaries and shell companies collaborates with regional bootleggers, obscuring the source of the contraband through complex paperwork and convoluted routes. One of the major attractions of Chinese cigarettes is their significantly lower price compared to legal competitors in countries like Colombia and Mexico, largely due to high taxes imposed by many Latin American governments which have significant economic impacts in these countries.

The illicit activities of CNTC are not confined to Latin America and extend to other parts of the world, including conflict zones like Libya, Syria, and Iraq. CNTC is increasingly shifting production overseas, with Brazil becoming a major supplier of tobacco for Chinese cigarettes, which further expands CNTC's global influence. This expansion extends to Africa as part of the Belt and Road Initiative Strategy.

A few years ago, multi-year operations, Smoking Dragon and Royal Charm, led by the Federal Bureau of Investigation and numerous U.S. and Canadian law enforcement agencies, acquired over \$40 million worth of counterfeit cigarettes and other illegal commodities coming into the United States from China and North Korea. The route ran from China directly to United States ports such as the Port of Newark in New Jersey and ports located in Los Angeles and Long Beach, California. The operations led to the indictment of 87 individuals from the United States, Canada, China, and Taiwan. Similar recent operations have unearthed ties to the Mexican narco-cartel including in 2020, when DHS Homeland Security Investigations (HSI) [seized](#) 422 million cigarettes in McAllen, Texas, which is one of the single largest seizures of tobacco products in history.

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. There also remain concerns related to state-sponsored forced labor as part of China's mass detention, political indoctrination, and labor transfer campaign against the Uyghurs and other members of Muslim minority groups, and the use of prison labor facilities that rely on forced labor to produce goods intended for export markets, including the United States.

### **Sanctioning and Targeting CCP's Corruptive Influence and Illicit Economies**

Through numerous reports in 2023, ICAIE has highlighted the CCP's corruptive influence and criminality across illicit economies around the world. In our a July 2022 ICAIE report, "[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 a logistical platform to move tens of billions of dollars worth of illegal drugs, illicit goods, and contraband.

China [controls](#) all or portions of 40 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.

**Collective Enforcement Action:** Before counterfeits, illicit goods, and contraband from China, and other provenance jurisdictions, enter U.S. markets, we must extend our homeland zone of security to source markets, hubs of illicit trade, and FTZs including those in Panama (Colón), UAE (Jebel Ali), South America’s Tri-Border Area (TBA), in Europe, and other strategic ports and economic zones around the world.

Cybercrime, virtual currency, [mobile payments \(M-Payments\)](#) and [mirror swaps](#), 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 the United States, Canada, Europe, and other financial safe havens.

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. Many of these failed debt-ridden BRI projects provide 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.

We need to undertake greater intelligence, data analytics, and data mapping that can show overlays of illicit routes and criminal networks across BRI markets and better understand 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.

Chinese hunger for critical minerals and rare earth elements is strategically significant and adverse to U.S. national interests, especially in markets in Africa, Latin America, Afghanistan, and other places. For example, Argentina, Bolivia, and Chile hold an estimated 55 percent of the world’s lithium reserves, which are important for batteries and semiconductors. As ICAIE’s [Doug Farah](#) has noted in our recent reporting, China has invested, licitly and illicitly, billions of dollars in South America to extract lithium and other critical minerals. In addition to corruption and environmental degradation in Congo and other

places where China is mining these critical minerals, it has also been reported that it is enabling forced labor and exploitation of children in the cobalt and lithium mines.

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.

### **Putting Pressure on China to Crackdown on Illicit Trade**

China is an adversary, and 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 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.

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.

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.

Given the grave harms to our industries and citizens, we may want to sanction and designate the corrupt ruling elites and complicit criminal entrepreneurs in China as extraordinary threats to our national security under the International Emergency Economic Powers Act (IEEPA), and seize related dirty monies derived from perpetuated criminality against American national interests. Such sanctions would truly capture the danger of CCP's widespread profiting from 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 urgent threat they present to national economic markets, the rule of law, democracy, and the well-being of our citizens and industries.

If China wanted to stop the greater flows of fentanyl and other imputed cross-border illicit activities, it easily could. But it refuses to do so. Until then, the United States and the international community must continue to secure a rules-based world order. In order to ensure greater democracy and market transparency across the world, we must hold the CCP more accountable while holistically prosecuting the fight against illegal trade, corruption, criminalized markets, counterfeiting, and predicates to money laundering.