

The Select Committee on the CCP
Testimony by Donald H. Im
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Good morning Chairman Gallagher, Ranking Member Krishnamoorthi and distinguished members.

Thank you for the opportunity to testify in regards to the economic impact of China's supply of synthetic chemicals leading to the deadly crisis killing tens of thousands of Americans every month. I'd like to caveat my testimony with the fact that this is my opinion and mine alone, based on my 31-years of experience, adjudicated investigations, open-source affidavits, and open-source academic studies.

As it is known, Mexican Cartels are the producers and traffickers of narcotics laced with synthetically produced fentanyl. These deadly poisons could not be produced without precursor chemicals manufactured in laboratories in China. But Mexican Cartels also produce methamphetamine, heroin and traffic cocaine into the United States generating billions of dollars in profit annually. The piles of cash are hidden in discreet houses or apartments in cities and towns where drugs are sold. Drug trafficking organizations need to launder these proceeds to safely integrate their profits into the legitimate economy.

In my 31 years with the Drug Enforcement Administration, I initiated, conducted, supervised, and supported hundreds of money laundering investigations and operations involving Colombian, Venezuelan, Panamanian, Mexican, Lebanese, and Chinese criminal organizations and networks throughout the world. We were able to penetrate these criminal entities with our drug money investigations that identified the sources of the illicit drugs, the chemists, the transporters, the distributors, terrorists, and, the money brokers. We also identified the key facilitators such as business entrepreneurs, bankers, lawyers, accountants and corrupt officials.

In the 1990's when I investigated Chinese Triads and heroin networks from Southeast Asia to the United States, or Colombian Medellin and Cali Cartels, a nexus to China began to appear, but leads sent to the DEA office in Beijing met with negative responses. And again, when I initiated the HSBC Bank investigation in 2007, we encountered Mexican, Chinese, Russian, Venezuelan, East and South African criminal networks as well as Middle East terrorist organizations, funneling and transferring funds through HSBC's global banking network. And again, leads into China-based state-owned banks, companies and manufacturers met with limited responses.

Limited Cooperation

Throughout the years, DEA made continuous efforts to provide leads, information, evidence and even training to People's Republic of China (PRC) law enforcement officials regarding various forms of money laundering. DEA also presented and produced

information to Chinese government officials at the highest levels during the Bi-Lateral Counternarcotic Working Group meetings.

Outside of a handful of successful cooperative results, thousands of leads were met with silence or responses that, “a crime was not committed according to China’s laws.” Regardless of proven drug funds transferred into Chinese banks directly linked to a specified unlawful activity, even under Chinese law, they would reply that there were no crimes committed on Chinese soil. When we passed leads regarding a China-based company involved in drug or precursor chemical trafficking, Ministry of Public Security officials would ask for additional details of the company in question and the scope of our investigation. We subsequently determined and realized through sources, the targeted company, if owned or was linked to a Chinese Communist Party (CCP) member, would be notified and warned that US law enforcement authorities were either investigating or monitoring them. The DEA Fujing Zheng investigation being one of them.

Drug Money & Global Commerce

Early in my DEA career, I noticed the significant underlying symbiotic relationship between drug trafficking, banking and commerce. Primarily, because illicit drugs are a commodity in demand for money: Hundreds of billions of dollars’ worth, throughout the world annually.

A 2017 Global Financial Integrity Report estimates that the value of global drug trafficking for the year 2014 alone, was between US \$426 and US \$652 Billion, with the United States as the leading drug consuming nation in the world. Now, I would estimate it even closer to US \$1 trillion dollars annually.

What DEA uncovered in the 1980’s during the period of unregulated money laundering, were the paths and conduits for illicit drug proceeds to become integrated in the legitimate economy. And since then, China’s massive export economy has helped create the world’s largest money laundering system, fueled by the multi-billion-dollar illicit drug industry. This global money laundering system is intertwined with the legitimate economy, expanding its reach in every alley, road, neighborhood, town, city, country, and more now than ever, over the world wide web in cryptocurrencies.

The myriad of tangible and intangible assets and value are purchased or bartered from the cash generated from the global drug trafficking industry and integrated as prepaid value and credit cards tethered to a slush fund, commodities, assets and values such as electronics, condominiums, properties, luxury items, expensive art, casino chips, favors, services, school tuitions, scholarships, job positions, vacations, political donations, home mortgage payoffs, and even as collateral on large bank loans with the borrower subsequently defaulting.

In the 2000’s, China’s economic expansion, coupled with their rapidly burgeoning economy, allowed Colombian and Mexican Cartels, a secure avenue to launder and conceal their illicit profits, all the while, helping fuel China’s export economy. Since then, the need by drug cartels to repatriate their ill-gotten profits in US and European cities are being

fulfilled by Chinese criminal networks and underground banks, operating cash businesses in North and Latin America and Europe.

The “Contract”

Chinese criminal money brokers charge Colombian or Mexican Cartels a “contract” fee of zero to 3% on the front end, to launder the piles of drug cash in US and European cities. On the back end, the Chinese brokers would then auction the amount on China’s WeChat social media app, and under the eyes of PRC monitors, and charge commission fees of up to 20% over the base amount. Their associate networks structure the illicit cash into thousands of bank accounts in North America and Europe, and then layer and integrate the funds into assets or into other financial instruments.

For example, US \$1 million in fentanyl and methamphetamine proceeds in New York City, will be auctioned on various WeChat rooms and Chinese citizens will bid to purchase the US \$1 million for up to US \$1.2 million. The citizen will not exchange US \$1.2 million in Renminbi into US dollars and transfer it abroad, but the US \$1.2 million in Renminbi will be transferred to Chinese manufacturing companies in China for various merchandise and commodities worth US \$1.2 million and have it exported to those Chinese money brokers and/or businesses in Colombia, Mexico or Panama.

The products will be sold into the legitimate Colombian or Mexican economy, generating profits for those Chinese brokers, simultaneously, servicing as an ad hoc bank for Colombian and Mexican Cartels, who safely receive their ill-gotten wealth in their home currency. The US \$1 million in the United States, is secured in bank accounts, in real estate, or other assets and even escrow accounts for college tuition, and are now owned by the Chinese citizen who purchased the US \$1.2 million worth of exported merchandise. This is called: Trade Based Money Laundering (TBML).

While there are many other variations to this money laundering method, currently, it is the most optimal and effective way. This indirect, asymmetric processes of commercial and banking cycles are like separate wheels in a traditional wrist watch, triggered by illicit cash



that churns other wheels simultaneously in other parts of the world, without a direct linear nexus between the illicit drugs and the billions converted into various forms of assets and value. This takes place daily between drug source countries, drug consuming countries and China.

China’s strict capital flight restrictions implemented in 2016, limit Chinese citizens from transferring large sums of cash abroad. The TBML system has allowed many wealthy Chinese citizens and government officials a way to bypass these regulations and transfer billions in wealth to

more stable economies. Those Chinese citizens know the proceeds are from drug trafficking or other criminal activities but will look the other way, or deny any knowledge of its source.

While Chinese criminal organizations launder Mexican and Colombian Cartel drug proceeds, the same Chinese criminal organizations and networks have been cultivating tens of thousands of marijuana farms and grows houses throughout the United States and Europe, namely, in states that legalized marijuana. With billions of dollars and Euros in profit generated, and with limited chances of being prosecuted and imprisoned, this lucrative cash cow has become a source of cheap capital, directly, or indirectly, for China's wealthy, provincial BRI projects, various debt, and for failing state-owned enterprises (SOE's) on the verge of bankruptcy. Furthermore, the expansion of marijuana cultivation sites combined with China's rising unemployment rate, continue to lure thousands of Chinese migrants into the United States to work in these sites generating massive profits that help create liquid capital for China-based entities.

Colombian and Mexican Drug Cartel profits generated in the United States and Europe, trigger hundreds of billion dollars' worth of Chinese merchandise and commodities exported to third party countries via TBML. This system is the most lucrative and elusive method of concealing the original sources of funds, and likely, causing skewed trade balance data between nations importing Chinese-manufactured products, all the while, allowing Chinese citizens to transfer vast amounts of capital out of China.

China's BRI – Drug Money & Corruption

When China began its global economic expansion strategy, the One Belt One Road Initiative (BRI) in 2013, the lynchpin to cooperative agreements with over 150 nations have always been capital. Funds to develop, design, and construct thousands of infrastructure projects creating a network of rail, road, shipping, air, and cyber connections. Chinese state-owned banks from various provinces in China provided cheap loans for capital to other Chinese SOE's to construct those key projects that support and sustain the BRI. Key industries and manufacturers from throughout China's provinces had been providing capital, goods and commodities, equipment, raw minerals and resources, and manpower, generating employment and profit, for China's growing capital market-economy.

These provincial governors and other CCP leaders compete with one another for higher positions based on economic performance in their province. Hence, the pursuit of economic growth and competition, created an atmosphere of reduced oversight, regulations, accountability and enforcement, leading to significant corruption throughout China's provincial governments, and even up to high level military and CCP party members.

Chinese Customs and Trade Ministry Officials in certain provinces either participated or and encouraged capital investment with incentives such as subsidies or reduced taxes and tariffs for exporting companies, or reduced inspections and lax regulations. Many China-based chemical companies that supplied fentanyl precursors and illicit drugs benefited from these incentives for many years. Hundreds of billions of dollars of illicit drug proceeds have been laundered through the thousands of manufacturing companies exporting finished

commodities and chemicals to Mexico, North, South and Central America, Africa, Europe and Middle East.

Chinese Companies Shift into Mexico

In the past 4 years, Mexico has taken over China as the largest exporter into the United States. Mostly due to the tariff war between the US and China, and the impact of COVID. China's exports to the United States have decreased since 2018 while Mexico's volume of exports into the United States have increased.

However, this direct reduction of trade between the United States and China does not necessarily result in a total loss for Chinese companies and SOEs, as more than 100 Chinese manufacturing companies are helping create approximately 18 industrial manufacturing parks throughout Mexico, all the while, allowing Chinese manufacturing companies to bypass US tariffs, and scrutiny.

Combining the lack of regulatory oversight, accountability, and enforcement, the creation of these industrial parks in Mexico with Chinese SOE's and manufacturing companies, potentially, will become susceptible, if not already, to Chinese criminal organizations and drug cartels.

A critical gap exists regarding the sources of capital generated and invested in industrial parks by both Mexican and Chinese companies. Previous DEA and HSI money laundering investigations have revealed hundreds of millions of dollars identified and traced into small and large businesses and even corporations for the purchase of construction materials, machinery, tools, industrial chemicals, vehicles, appliances, tires, and other necessary items.

Coordinated & Synchronized Measures

The threat from China can be resolved with the understanding that this deadly opioid crisis is not just about drug addiction; it's about crime; terrorism; national security; global commerce and banking; corruption; and greed.

Our inability to tackle this deadly crisis is underpinned by the lack of an integrated and coordinated effort between the sectors of government. In addition, there is a sense of indifference by US private sector corporations and banks, which, if reversed, could help mitigate this deadly crisis. Hundreds of billions of dollars in trade and services are exchanged by US corporations and banks, which can be leveraged to influence key Chinese provincial governors and industries in China and Mexico.

Conclusion

Mr. Chairman, Ranking Member, Honorable Committee. My fear is not China launching nuclear missiles or a military invasion against the United States, it's the degradation and destruction of our country by the allure of money exploiting society with deadly addictive poisons, cheap merchandise and tailored-made information and entertainment. Our country is undergoing an unrelentless attack of unrestrictive and asymmetric warfare, tactics for

which our national security structure is currently ill suited to deter. And it's all written and planned out.

I ask you and our leaders this one question: If Russia, not China, were manufacturing fentanyl precursor chemicals and selling them to ISIS terrorists instead of Mexican cartels, to traffic fentanyl-laced pills killing tens of thousands of Americans monthly, would we respond differently or continue with our current policies and funding?