



**ICAIE**  
INTERNATIONAL COALITION  
AGAINST ILLICIT ECONOMIES

# **Defending and Investing in U.S. Competitiveness: The Impact of China's Illicit Economies to U.S. National Security**

U.S. Senate Committee on Finance  
Fiscal Responsibility and Economic Growth Subcommittee  
July 14, 2021

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Prepared Testimony of  
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Executive Director  
International Coalition Against Illicit Economies (ICAIE)

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Good afternoon.

Chair Warren, Ranking Member Cassidy, and distinguished members of the Subcommittee, I appreciate the opportunity to testify in today's hearing.

As the Executive Director of the [International Coalition Against Illicit Economies \(ICAIE\)](#), it is an honor to be here today to outline some of the national security impacts related to China's involvement in the expansion of illicit economies, the booming trade in counterfeit and fraudulent goods, money laundering/trade-based money laundering, and the corruptive and malign influence of the Chinese Communist Party (CCP) that continues to harm American interests, our economy and competitiveness, and the health and safety of our citizens.

In my testimony, I will discuss some concerning trends and cases of the illegal trade and cross-border criminal activities that are harming US national security and impacting numerous American brands across industries, including [ICAIE](#) members and partners.

I will then devote the last part of my testimony to possible solutions and approaches that can help to not only check and sanction illicit trade from China, but that can serve as a basis for more constructive engagement with the Chinese government to investigate and prosecute complicit bad actors in an array of cross-border trafficking crimes.

First, let me state that having in the recent past chaired and participated in several initiatives on fighting corruption and illicit trade as part of the U.S.- China Anti-Corruption Working Group of the Law Enforcement Joint Liaison Group (JLG ACWG), and multilaterally in several diplomatic fora such as the Asia Pacific Economic Cooperation (APEC) economic forum and the G20 in which China is also a member, I always believed that it was important to have frank and direct talks with China on the tough issues in order to work together to solve complex and difficult challenges.

China is an adversary with numerous geopolitical ambitions that threaten U.S. national security interests. However, China can also be a responsible partner working with the United States where national interests align to do good in our world including safeguarding the peace, promoting shared prosperity, and addressing today's transnational illicit threats.

But before the United States can embark on encouraging China to shutdown illicit trade flows and tackle unfair trade and business practices, it is important to have an understanding of the increasingly diverse array of market security threats that China continues to inspire across borders. These threats are harming U.S. national interests, including our economic competitiveness internationally, and also have had a considerable impact domestically on our businesses and the well-being of our citizens.

To put in perspective China's role in diverse forms of illicit trade and dark commerce, we must recognize that the global illicit economy is booming as Dr. Louise I. Shelley – Director, Terrorism, Transnational Crime and Corruption Center (TraCCC), Schar School of Policy and Government, George Mason University – has often highlighted in her research.<sup>1</sup>

The effects of illicit trade and illicit economies are multifaceted. Corruption and illicit finance are at the core of these complex cross-border issues, and corrode the underpinnings of democracy, good governance, clean markets and supply chain security, and economic development efforts. They also impede progress on human rights and implementation of national sustainability strategies related to the UN Sustainable Development Goals (SDGs).<sup>2</sup>

The lucrative criminal activities enabling and fueling the multitrillion-dollar illicit economies include the smuggling and trafficking of narcotics, opioids, weapons, humans, counterfeit and pirated goods; illegal tobacco and alcohol products; illegally harvested timber, wildlife, and fish; pillaged oil, diamonds, gold, natural resources and precious minerals; and other contraband commodities.<sup>3</sup>

Such contraband and illicit goods are sold on our main streets, on social media, in online marketplaces, and on the dark web every minute of every day. The United Nations has estimated that the dirty money laundered generated annually from such criminal activities is between 2 and 5 percent of global GDP, or \$1.6 to \$4 trillion.<sup>4</sup>

Make no mistake: China today is helping fuel this 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.

### **Fentanyl and Precursors Chemicals**

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

Such dangerous contraband is killing tens of thousands of Americans each year, especially our youth. Its potency is fueling the addiction crisis in the United States, especially when it is mixed with heroin or cocaine to increase profits for the Mexican cartels and other criminal organizations in their narco-trafficking operations.<sup>5</sup> Mexican criminal networks earn tens of billions of dollars a year supplying narcotics, fentanyl, and other synthetic drugs to U.S. users.<sup>6</sup>

China is a principal source of the lucrative illicit synthetic fentanyl, its analogs, and precursor chemicals that are arriving in North America, bought by Sinaloa and Cartel de Jalisco Nueva Generación (CJNG), and facilitated by Chinese organized criminal groups.<sup>7</sup> Significant quantities 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.<sup>8</sup> As our law enforcement officials have discovered, containers are often mislabeled and packets hidden to avoid detection at legal ports of entry. 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.<sup>9</sup> 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.

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 in many parts of the world.<sup>10</sup>

As I will continually stress today, we need to heighten the political pressure on China to work with the U.S. to disrupt these illicit trafficking flows and target complicit criminals’ dirty money.

### **Illicit Trade and Illicit Markets**

Chinese state-sponsored hackers and criminals are stealing the intellectual property (IP) of the United States and American companies. Intellectual property theft and economic espionage of U.S. trade secrets are estimated to be as high as \$600 billion annually. China is responsible for much of this IP crime, hurting American innovation, competitiveness, good-paying jobs, and economic growth.<sup>11</sup>

Another harm to American interests driven from China’s illegal trade and unregulated economy are the flooding of counterfeits – often times dangerous and toxic fake products – into US markets including foodstuffs, footwear and apparel, toys, electronics, and pharmaceuticals. This is especially true across ecommerce platforms and internet marketplaces, including third-party sellers and online pharmacies that sell counterfeits and fake medicines that increase the health and safety risks to all American consumers. As the U.S. Department of Homeland Security (DHS) underscored in a 2020 report on counterfeits and pirated goods<sup>12</sup>:

*counterfeits threaten national security and public safety directly when introduced into government and critical infrastructure supply chains, and indirectly if used to generate revenue for transnational criminal organizations. Counterfeits also pose risks to human health and safety, erode U.S. economic competitiveness and diminish the reputations and trustworthiness of U.S. products and producers.*

The National Association of Manufacturers (NAM) released a report last year finding that counterfeits sapped the U.S. economy of \$131 billion and 325,500 American jobs in 2019.<sup>13</sup> More globally, both the U.S. Department of Homeland Security (DHS) and the Organization for Economic Cooperation and Development (OECD) have found China (including Hong Kong) accounts for up to 80-90 percent of all counterfeits seized in the United States and around the world (\$509 billion a year or 3.3 per cent of global trade).<sup>14</sup>

While the COVID-19 pandemic brought economic malaise to most sectors during pandemic economic lockdowns, according to Euromonitor<sup>15</sup> the illicit economy continues to accelerate, especially across the digital world with billions of vulnerable consumers on-line. This is especially true across online marketplaces that are generating tremendous prosperity for e-commerce platforms, scammers, fraudsters, counterfeiters, and other predatory criminals that are generating tens of billions of dollars selling fake pharmaceuticals and vaccines, personal protective equipment (PPE), counterfeit apparel and footwear, copyrighted electronics knock-offs, and other illicit goods mostly coming from China.

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.

In other specific sectors the story is the same on the economic impact of counterfeits from China:

### Pharmaceuticals

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.<sup>16</sup> Across numerous illicit trafficking routes, Chinese counterfeit medicines arrive in American, European, and other markets around the world in dangerously high volumes.

According to the World Health Organization (WHO), 10 percent of global commerce involves counterfeit and fake medicines, which have caused hundreds of thousands of deaths in some of the world's most impoverished countries.<sup>17</sup> For example, counterfeit anti-malarial and other fake medicines from China end up causing tremendous health complications and fatalities.<sup>18</sup> Other known counterfeited and fake pharmaceuticals seized have been intended to treat cancer, heart, diabetes, COVID-19, human immunodeficiency virus (HIV), genitourinary diseases, and other serious medical ailments. Often the ingredients in these counterfeit prescription drugs or fakes found in open markets contain no active ingredient or in some cases, chalk, flour, pollen, or even toxic and deadly chemicals such as rat poison, boric acid or anti-freeze.<sup>19</sup>

On counterfeit PPE products related to the COVID-19 pandemic, 40 million Chinese-produced counterfeit N95 and other face masks that are substandard and do not protect medical workers and first responders, have been seized in the US<sup>20</sup>, after having entered the legitimate supply chain. Other Chinese counterfeit PPE and pharmaceuticals that have endangered our medical

professionals and citizens during the pandemic have similarly been seized by U.S. law enforcement authorities.

In the U.S. and several other countries, fake websites are purporting to sell COVID-19 vaccines with the purpose of obtaining people's personal information. According to the Wall Street Journal, Pfizer confirmed counterfeit versions of the COVID-19 vaccine it developed with BioNTech SE had been seized in Mexico, highlights how criminals are exploiting the current pandemic for profit especially the world-wide vaccination campaign.<sup>21</sup> In March 2021, INTERPOL seized hundreds of fake COVID-19 vaccines, while early this month in India, thousand were being scammed into getting similar pandemic fakes made of salt water.<sup>22</sup>

### Electronics

The proliferation of counterfeited electronics significantly hurts not only our electronics industry but threatens our national security, the safety of our troops, American jobs, and our consumer-citizens. In the electronics industry, fake parts cost component manufacturers about \$100 billion annually. Cell phones such as the Apple iPhones, tablets, computers, smart watches, blue tooth earbuds, Microsoft software, and other high-demand consumer electronics are also counterfeited in the tens of billions every year.<sup>23</sup>

With regard to our national security, counterfeit electronic parts from China have been found to have infiltrated critical military systems and supply chains, including military warfighting jets and tanks, special operation cargo planes, navigation and radar systems, missiles, and other hardware and software.<sup>24</sup> In the past, counterfeit computer microprocessor-chips have been falsely labeled as products coming from Intel, Motorola, and Texas Instruments.

### Luxury Handbags, Footwear and Apparel

It is expected that the global luxury goods market will reach \$300 billion by 2026.<sup>25</sup> MarkMonitor reports that almost half (47 percent) of brands will lose sales revenue due to counterfeiting or pirated goods.<sup>26</sup>

Every IP-protected product can be counterfeited. This is true across all consumer goods and services but especially for the footwear and apparel industry which accounted for more than a third of all customs seizures from China and Hong Kong.<sup>27</sup> The most commonly counterfeited American footwear and apparel products are NIKE, the North Face, Under Armour, Levi's, Michael Kors, Polo, and other brands. Clearly such criminal counterfeiting hurts the creative innovations, investments in R&D, intellectual property, and trademarks of American footwear and apparel companies.

Social media sites like Instagram and Facebook as well as online marketplaces have become a boon for criminals in counterfeiting luxury fashion brands, including footwear and sportswear from American team sports from the National Football League (NFL), Major League Baseball (MLB), National Basketball Association (NBA), National Hockey League (NHL), and those

associated with international sports federations such as Union of European Football Associations (UEFA), FIFA, and International Olympic Committee (IOC).

In addition to this counterfeit sportswear and gear, anonymous companies and money laundering – including Trade-Based Money Laundering (TBML) -- have helped criminals across the United States sell in recent years several billion dollars in fake and counterfeited luxury handbags and apparel accessories coming from China including those branded as Burberry, Louis Vuitton, Gucci, Fendi, Coach, and Chanel.<sup>28</sup>

### Tobacco

Like other forms of illicit trade, the illegal tobacco trade is incredibly profitable for criminal organizations and kleptocratic networks. According to a Department of State report, the illicit trade in tobacco products costs governments and taxpayers between \$40 billion and \$50 billion annually in tax revenues.<sup>29</sup>

China National Tobacco Corporation (CNTC) is by far the largest cigarette company in the world and produces nearly half of the world's cigarettes.<sup>30</sup> The Chinese state-owned conglomerate is vying for a larger market share within the tobacco industry, and it has been forging new markets from Africa to Europe. According to experts, smuggling is an important part of that strategy, especially across Free Trade Zones and unregulated markets where Chinese illicit cigarettes are often re-shipped to Somalia, Libya, Syria and other hot spots of instability.<sup>31</sup> Panama's lax oversight and law enforcement has enabled CNTC's push into Latin America.

The Organized Crime and Corruption Reporting Project (OCCRP) has also recently uncovered Chinese smuggling networks that have flooded illegal markets with numerous CNTC illicit cigarettes, evading customs authorities and dodging taxes.<sup>32</sup> Multi-year operations, Smoking Dragon and Royal Charm<sup>33</sup>, 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.

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 on in regulated markets. In addition, other impurities such as rat poison, feces and asbestos were found in some cigarettes.<sup>34</sup>

But China is not the only player expanding its footprint internationally and taking advantage of US ports. Most recently the United Arab Emirates, has emerged as a large manufacturer of cigarettes intended for the sole purpose of being smuggled, with an estimated production of more than 80 billion cigarettes annually. These unregulated products are transiting through US custom bonded warehouses to be then illegally diverted into Mexico in collaboration with narco-cartels such as CJNG or the Zetas Cartel. In 2020, DHS Homeland Security Investigations (HSI) of 422 million cigarettes in McAllen, Texas<sup>35</sup>, the single largest seizure of tobacco products in history.

## Automotive Parts

Another economic and safety harm caused by illicit trade relates to fake automotive components which are also a highly lucrative business for counterfeiters and damage brand reputations of carmakers. Fake and counterfeited auto parts have caused great bodily injuries, and even deaths to consumer-drivers. According to World Trademark Review, the estimated global economic costs of counterfeiting in the automotive industry could reach \$2.3 trillion by 2022.<sup>36</sup>

In the United States, counterfeit parts are costing automotive companies like Ford, GM, Tesla, and others tens of billions of dollars a year with most of fakes originating in China. Among the most popular counterfeited auto parts are tires, batteries, airbags, oil and air filters, brake pads, spark plugs, transmissions, wheels, and electrical components.

Across the digital world, especially ecommerce platforms and online marketplaces, automotive fakes are listed for sale that make it difficult for consumer to distinguish a counterfeited auto part from a real one.<sup>37</sup> This is why it is important to know and trust reputable supply chains and parts distributors.

## Endangered Wildlife

The illegal wildlife trade generates between \$7 billion and \$23 billion each year.<sup>38</sup> Since 1970, humans have decimated animal populations by almost 68 percent according to World Wildlife Fund (WWF).<sup>39</sup> 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. Rhino horn and tiger parts are not only used for traditional medicinal treatments, but also to make exotic wines and aphrodisiac drinks.

Investigations by Earth League International – an ICAIE Advisory Council member -- have found strong Mexican cartel links with criminal syndicates in China who smuggle totoaba bladders from Mexico and U.S. into Asian black markets.<sup>40</sup> These Mexican-Asian criminal joint ventures, that operate as well in the United States, have also been involved in human smuggling, money laundering, and other illicit trafficking areas.<sup>41</sup>

While China has made some good efforts in the past year during the COVID-19 pandemic to curtail the illegal wildlife trade, it remains a country of concern as a source, transit point, or consumer demand market of wildlife products. Chinese banks help to launder the funds of illegal wildlife traffickers and related Chinese triads involved in smuggling, in some ways being complicit in the further financing of other forms of crime as these bad actors have diversified their illicit portfolios, especially in the Golden Triangle in Southeast Asia.<sup>42</sup>

Illegal and predatory fishing, logging of rainforests, and mining of natural resources by Chinese criminal syndicates and facilitators also harm our natural world, contribute to climate change, and converge with other illicit activities such as corruption, forced labor, human smuggling, and sex trafficking.

## **Human Trafficking and Forced Labor**

Human trafficking and modern slavery are among the world's fastest growing criminal enterprises, generating an estimated \$150 billion in illicit profits every year.<sup>43</sup>

Human smuggling is also a major source of illicit trade. The U.S. Department of State has continually called China a source, destination, and transit country for men, women, and children subjected to forced labor and sex trafficking. In its most recent 2021 Trafficking in Persons report<sup>44</sup>, the State Department noted that in China there continue to be “reports of law enforcement officials benefiting from, permitting, or directly facilitating sex trafficking and forced labor, [while] the government did not report any investigations, prosecutions, or convictions of law enforcement officials allegedly involved in the crime.”

In this 2021 report, there was also mention of 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.<sup>45</sup> Chinese nationals reportedly are suffering forced labor in several countries in Asia, Africa, and Europe that are hosting Belt and Road Initiative (BRI) projects.

Human smuggling from China to the United States – both by land and by sea – is reported to be on the rise. The going rate per person smuggled is believed to be \$50,000 or more.<sup>46</sup> From a crime convergence perspective, Chinese criminal syndicates are expanding their ties with the Mexican cartels and other criminal organizations in Latin America and diversifying into other illicit markets. According to the Polaris, human trafficking and massage parlors involving Chinese organized criminals are also a significant concern to the United States especially related to illicit massage businesses (IMBs), which generate \$2.5 billion annually.<sup>47</sup> The vast majority of women reported to have been trafficked in IMBs are from China, with a relatively high number coming from the Fujian province.<sup>48</sup>

## **China’s Money Laundering, TBML, and Cross-Border Illicit Finance Activities**

On the Chinese threats related to money laundering including trade-based money laundering (TBML), John Cassara, Global Financial Integrity (GFI), and board member of ICAIE, has been doing some innovative research on the breath and scale of China’s involvement in money laundering and trade-based money laundering operations globally.<sup>49</sup> Mr. Cassara characterizes Chinese criminals’ cross-border illicit finance activities as the biggest money laundering hub in the world, introducing and laundering approximately \$1.5 to \$2 trillion of illicit proceeds into the world’s licit economy every year.<sup>50</sup> In other words, according to Mr. Cassara, China is responsible for approximately one-half of the money laundering in the world today, as measured by China’s/the CCP’s involvement in predicate offenses for money laundering.<sup>51</sup>

The U.S. Department of State similarly recognize China as a global center for money laundering for criminals in the country and from around the world, and notes that “corruption is a major factor in money laundering”.<sup>52</sup> An estimated \$2 trillion representing proceeds in corruption alone have been laundered out of China since 1995.<sup>53</sup> Given the illicit enrichment from the numerous

criminal activities that I have already mentioned here today, when you include corruption and illicit financial flows, it should not come as a surprise that trillions of dollars in illicit proceeds are being generated from the predicate offenses for money laundering that touch China's jurisdiction and markets.

In both the 2016 report by the Organization of Economic Development (OECD) on counterfeit and pirated goods as well as the 2017 GFI report "Transnational Crime and the Developing World" that outlined some of the top illicit markets, China seems to be the common denominator, with Chinese illicit proceeds dwarfing all others.<sup>54</sup>

Building on earlier illicit finance methodologies such as the Black Market Peso Exchange (BMPE) -- where drug proceeds were used to purchase trade items such as electronics, garments, and toys -- money launderers today import cheaply manufactured Chinese goods or counterfeits at overvalued prices to wash criminally-derived dirty money.<sup>55</sup> There have been major multi-billion dollar investigations showing that Chinese authorities actively obstructed justice and did not work with law enforcement counterparts in jurisdictions where money laundering predicate offenses have occurred.

Shadow banking, Chinese underground banking systems (CUBS), the use of mirror accounts, Chinese capital flight, and alternative remittance systems such as "fei-chein" (flying money) all sometimes use trade-based value transfer. Trade fraud is the largest component of TBML. Trade-based value transfer is a perfect vehicle to transfer money/value in the form of trade goods out of the country by importing goods at overvalued prices or exporting goods at undervalued prices.

China is the biggest trading nation in the world. The magnitude of international trade masks the occasional illicit trade transaction making it very difficult for customs and law enforcement to identify individual instances of TBML. Yet, according to a 2020 GAO report on TBML, Homeland Security Investigations notes that China is one of the countries of most concern.<sup>56</sup>

According to FATF<sup>57</sup>, China has not effectively enforced their anti-money laundering laws which has enabled corrupt officials and criminals to launder cash through anonymous shell companies and other methods. For example, recent reporting has highlighted how Chinese citizens are leveraging the "flying money" informal value transfer systems to circumvent the current strict foreign currency controls and personal foreign exchange transaction limits (US \$50,000) or smurfing of lesser amounts of the thresholds.<sup>58</sup>

Cybercrime, virtual currency, and online e-commerce have enabled some criminals to convert electronic funds in China into hard currency overseas.<sup>59</sup> There has been discussion in China on easing of capital controls and whether it will further accelerate money laundering and TBML activities in China. This is difficult to answer given the growing influence of cryptocurrency and other value transfer systems in licit and illicit transactions, the lack of transparency in China, and continued weaknesses in fighting corruption and predicate crimes to money laundering. But it is possible that the easing of capital controls across borders could "encourage money laundering and asset-stripping" through the commingling of licit and illicit funds.<sup>60</sup>

In addition to TBML, Chinese criminal syndicates and their money facilitators have laundered great sums of dirty money through the use of anonymous shell companies and the purchasing of expensive real estate in the United States, Canada, Europe, UAE, luxurious resort islands, and top offshore destinations such as the British Virgin Islands, Singapore, Cook Islands, and Panama. According to the National Association of Realtors (NAR), China has continued to exceed all other buyers in the United States both in units and dollar volume of residential housing.<sup>61</sup> Despite capital flight controls in China, many of the purchases are made in cash. There is also a lack of beneficial ownership information.

Canada, in particular Vancouver, has also been a favorite place for Chinese organized crime and corrupt officials to launder their “hot money” through real estate and other investments such as luxury sports cars and apparel.<sup>62</sup> Chinese Organized Crime in Canada is connected to a global network and “has strong linkages to Hong Kong and China, which is a source country for counterfeit goods, contraband tobacco, and chemicals used to produce synthetic drugs, as well as migrants who are smuggled into this country.”<sup>63</sup>

Finally making matters worse, China has shown little cooperation with the international law enforcement community in combatting many of the criminal activities and corresponding money laundering that I have been underscoring at this hearing. Here let me take a moment to thank Senator Cassidy for his leadership in the Congress in elevating the importance of fighting trade-based money laundering, as a critical tool in our arsenal to protect our national security.

### **Free Trade Zones and Belt and Road Initiative: The Expansion of Illicit Economies**

A few points on the abuse of free trade zones and how China leverages the Belt and Road Initiative to expand illicit economies around the world.

Free Trade Zones (FTZs) can have a catalytic effect on economies, including attracting Foreign Direct Investment and helping to expand economic growth.<sup>64</sup> But in too many parts of the world, those FTZs that are unregulated or unmonitored are exploited on a daily basis by criminals to facilitate illicit activities that produce broader market reputational harm and put the physical security of many communities in danger.<sup>65</sup>

The FATF has identified FTZs as posing a high risk for money laundering and a threat to the integrity of global financial regulatory standards. For example, as recently reported by the U.S. State Department in this year’s Country Reports on Terrorism, the free trade zones in the Tri-Border Area of Argentina, Brazil, and Paraguay remained regional nodes for money laundering and are vulnerable to terrorist financing.<sup>66</sup>

The reality is that criminals are diligently moving illegal products from FTZs into surrounding markets, evading customs, not paying excise duties, and putting locally manufactured and legitimately imported goods at a competitive disadvantage.<sup>67</sup> Payments for counterfeits being trafficked through the UAE from China and on to Africa may eventually wind up in Panama or

Europe, where they then help to fund other types of illegal activity, be it more illicit trade or other forms of criminality.<sup>68</sup>

**China's Belt and Road Initiative (BRI)** is an ambitious multi-trillion dollar economic development assistance program that is funding massive projects across the developing world including roads, ports, pipelines, electrical power grids, mining, telecommunications, railroads, and other infrastructure.<sup>69</sup> The licit trade channels and supply chains that the BRI is constructing are also creating illicit pathways exploited by kleptocrats, furthering market penetration by criminals, and contributing to the expansion of illicit economies globally.<sup>70</sup>

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 use of AI and data mapping can show overlays of illicit routes and criminal networks 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.<sup>71</sup> China's economic exploitation, reliance on cheap labor, and unfair trade practices in BRI projects are against the spirit of free trade, puts U.S. competitiveness at a disadvantage, and the ability of U.S. firms to compete in these markets.<sup>72</sup>

In Africa, Southeast Asia, and other parts of the world, China's BRI saddles recipient countries with long-term loans. These serve as debt-traps that impoverish communities, as kleptocrats line their pockets and pad their offshore accounts while enabling China to expand its influence and control of these countries' natural resources and strategic critical infrastructure.<sup>73</sup> Through its BRI leverage, China's investments have increased their influence and control of key ports in Latin America and the Caribbean.

Over the past 15 years, Chinese state-owned policy banks have provided close to \$150 billion in loan commitments in Latin America, exceeding lending of the World Bank, the Inter-American Development Bank (IDB), and CAF Development Bank of Latin America combined.<sup>74</sup> China's overall investments and expenses related to the BRI could reach \$1.2-1.3 trillion by 2027.<sup>75</sup> At the June 2021 G7 Summit, President Biden and other G7 Leaders announced a new "Build Back Better World (B3W)" to counter China's BRI and to help developing countries on their infrastructure needs and address some of their sustainable development national priorities.<sup>76</sup>

### **Conclusion: Forward Engagement, Honest Dialogue, and PPP Vigilance**

The risks and gravity of China's cross-border support for illicit trade, corruption, and criminality are impacting market stability, the integrity of the international financial system, the competitiveness of our industries, the rule of law, and the public health and safety of people across societies.

Given the scale of today's illicit economies, the U.S. Congress and the Biden Administration, working with the business community and our international partners, must engage China constructively, honestly, and cooperatively to address many of the illicit trade threats that I have outlined today.

- We need to elevate the fight against illicit economies and crime convergence in Congress as a national security and foreign policy priority, including through a strong bi-partisan Congressional caucus and/or an Advisory Commission. Such a platform can send a strong and united message to China, and others, urging them to work with the United States towards collective action and high visibility to shut down illicit markets, investigate and prosecute corrupt and criminal actors and their complicit facilitators, and to confiscate their dirty money.
- We must find ways to further empower our law enforcement agencies with new legal authorities and the necessary resources to disrupt illicit markets and anonymized criminal communications, prosecute illicit actors and threat networks, and combat corruption and money laundering safe havens.
- We must develop a national security strategy to combat trade-based money laundering (TBML) and to confiscate criminally-derived proceeds; promote information-sharing, coordinate actionable intelligence across borders; leverage blockchain, AI, and innovative technologies; and to develop more innovative and smarter global supply chain solutions to combat illicit pathways and illicit financial flows.
  - We also need to build greater awareness on the threats posed by TBML and threat finance through training, education, and outreach. As the Co-Director of [the Anti-Illicit Trade Institute \(AITI\)](#) of the [Terrorism, Transnational Crime and Corruption Center \(TraCCC\)](#), Schar School of Policy and Government, George Mason University, AITI-TraCCC has embarked on an innovative executive program to combat TBML and illicit trade.<sup>77</sup>
- We urge Congress to pass the Shop Safe Act<sup>78</sup> and other laws that stipulate all on-line items for sale must list in the product description clearly identifiable country or origin; sanction high-risk violators that are shipping and receiving illicit contraband through international mail facilities and express consignment hubs; establish trademark and contributory liability for online marketplace platforms when a third-party sells a counterfeit product that poses a risk to consumer health or safety, and other harms, and where platforms do not follow best practices; incentivize through best practices and due diligence the verification and vetting of such third-party sellers to ensure their legitimacy, removing counterfeit listings, and removing sellers who repeatedly sell counterfeits.<sup>79</sup>
- We should also explore more effective cooperative partnerships between China, Mexico Canada, and the United States through a new four-way framework – a Quadrilateral Commission against Illicit Trade and International Organized Crime -- to halt this deadly commerce, and the flooding of illicit goods into the United States. Such a four-party confidence-building process would reinforce the homeland security of each country.<sup>80</sup>

- There are no global problems that can be solved by any one partner working alone or in any one sector.
  - We need more holistic whole-of-society approaches in dealing with China in order to strengthen their political will, including dynamic public-private partnerships, to end illicit economies including those that the BRI is aiding. That’s why ICAIE is proud to support the [United to Safeguard America from Illegal Trade \(USA-IT\)](#) public education initiative, and other public and private sector partnerships such as the U.S. Council for International Business (USCIB)-led efforts with the OECD, G20, and APEC, working to protect American security and prosperity from black markets, illegal trade, and criminal entrepreneurs.<sup>81</sup>

As long as China continues to aggressively build a “great wall of steel” as President Xi recently said during the celebration of the 100th anniversary of China’s ruling Communist Party,<sup>82</sup> the United States must be vigilant of its own national interests and hold China accountable.

The U.S. must also confront and constructively engage China to be a more responsible market driver and citizen of the world in addressing a multitude of the illicit threats that harm U.S. national security, and the collective security of all nations.<sup>83</sup> Working with China, we must end the corruptive influence of today’s bad actors who are exploiting today’s illicit economies and are sabotaging legitimate commerce and the economic sustainability of nations who play by the global trade system of rules, and by the rule of law.

Through shared responsibility, the United States must find common ground with China on mutually-shared interests of economic growth, shared prosperity, and cross-border law enforcement cooperation to combat the multi-dimensional threats posed by illicit economies harming both countries and other nations across the globe, thereby helping to ensure greater market security, safer communities, and sustainable peace.

Thank you, and I look forward to your questions.

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