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# CHINA AND SYNTHETIC DRUGS CONTROL

## *FENTANYL, METHAMPHETAMINES, AND PRECURSORS*

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### EXECUTIVE SUMMARY

Synthetic opioids remain the source of the deadliest U.S. drug epidemic ever. Since 1999, drug overdoses have killed approximately 1 million Americans,<sup>1</sup> an overdose lethality that has increased significantly since 2012 when synthetic opioids from China began supplying the U.S. demand for illicit opioids.

Even though China placed the entire class of fentanyl-type drugs and two key fentanyl precursors under a controlled regulatory regime in May 2019, it remains the principal (if indirect) source of U.S. fentanyl. Fentanyl scheduling and China's adoption of stricter mail monitoring has created some deterrence effects. Instead of finished fentanyl being shipped directly to the United States, most smuggling now takes place via Mexico. Mexican criminal groups source fentanyl precursors – and increasingly pre-precursors – from China, and then traffic finished fentanyl from Mexico to the United States. Scheduling of fentanyl and its precursors in China is not sufficient to stem flows to the United States.

There is little visibility into China's enforcement of its fentanyl regulations, but it clearly remains limited. U.S.-China counternarcotics cooperation remains fraught, and from the U.S. perspective inadequate. Rejecting U.S. blame of China for the opioid epidemic and emphasizing U.S. responsibilities for that calamity, Beijing points to its benevolence in anti-drug cooperation. But China's cooperation with the U.S. in the global counternarcotics campaign has been subordinated to the overall deteriorated geostrategic relationship between the two superpowers. There is little prospect that in the absence of significant warming of the overall U.S.-China bilateral relationship, China would significantly intensify its anti-drug cooperation with the United States. U.S. punitive measures, such as sanctions and drug indictments, are unlikely to change that.

Structural characteristics of synthetic drugs, including the ease of developing similar, but not scheduled synthetic drugs and their new precursors – increasingly a wide array of dual-use chemicals – pose immense structural obstacles to controlling supply, irrespective of political will to prohibit and regulate their use and enforce the regulations.

The evolution of China's posture toward illicit methamphetamine production in China and the trafficking of meth precursors from China provides important insights into the patterns and limitations of China's international law enforcement cooperation. As with fentanyl precursors, China emphasizes that it cannot act against nonscheduled substances.

China takes counternarcotics diplomacy in Southeast Asia and the Pacific very seriously, but its operational law enforcement cooperation tends to be highly selective, self-serving, limited, and subordinated to its geopolitical interests. Nonetheless, after years of refuting international criticism for its role in meth precursor smuggling amidst burgeoning meth production in Asia, China has intensified its regional law enforcement cooperation at least with some countries. It has also mounted stronger internal regulatory measures even for nonscheduled drugs and has undertaken monitoring and interdiction operations. Yet Beijing rarely acts against the top echelons of Chinese criminal syndicates unless they specifically cross a narrow set of interests of the Chinese government. Chinese criminal groups cultivate political capital with Chinese authorities and government officials abroad by also promoting China's political, strategic, and economic interests.

China-Mexico law enforcement cooperation against the trafficking of fentanyl and precursor agents for meth and synthetic opioids remains minimal. China rejects co-responsibility and emphasizes that controls and enforcement are matters for Mexico's own customs authorities and other Mexican law enforcement to address. China has maintained this posture even as the presence of Chinese criminal actors in Mexico, including in money laundering and illicit value transfers (which are increasingly featuring barter of wildlife products for synthetic drug precursors), is expanding rapidly.

U.S. counternarcotics policy options vis-à-vis China can work through multilateral fora and emphasize China's self-image as a global counternarcotics policeman and Beijing's self-interest in preventing the emergence of synthetic opioid consumption in China, even as China points out its lack of domestic synthetic opioid use disorder. The United States can also encourage China to expand its anti-money laundering efforts, though no robust progress should be expected. U.S. indictments of Chinese companies and individuals on drug trafficking charges are important law enforcement tools, but will likely only reinforce China's defensive crouch and limit its counternarcotics collaboration with the United States unless the overall bilateral relationship improves.

Given no global political appetite for scheduling a vast number of dual-use chemicals, encouraging the development and adoption of self-regulatory mechanisms for pharmaceutical and chemical industries around the world – including in China – may reduce the ease of availability of precursor agents for drug trafficking organizations. But the implementation of such measures and the obstacles to their effectiveness are far greater than in the case of anti-money laundering standards in the banking sector.

## I. INTRODUCTION

During the past two-and-a-half decades, the United States has been experiencing its deadliest drug epidemic ever, caused by opioid use disorder. The epidemic became particularly deadly when synthetic opioids, such as fentanyl and its analogues, entered the U.S. markets and both displaced plant-based opioids and became increasingly mixed by illicit drug suppliers into other drugs, such as methamphetamine and cocaine. Over the past decade, when synthetic opioids started entering the U.S. market, China has been the principal direct or indirect supplier to the United States of fentanyl and its precursors, as well as other synthetic opioids.

Under three presidents — Barack Obama, Donald Trump, and Joe Biden — the United States has devoted significant diplomatic capital to get China to tighten its regulations vis-à-vis fentanyl-class drugs and more diligently enforce these regulations. In May 2019, China banned the production, sales, and exports of all fentanyl-class drugs unless special government licenses were issued and



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placed two immediate fentanyl precursors under these controls.<sup>2</sup> This “scheduling,” however, has done little to halt the flow of fentanyl to the United States. Mexican drug trafficking groups continue to intensely source fentanyl precursor and pre-precursor chemicals in China, synthesize them into fentanyl, and smuggle them to the United States. Between October 2020 and September 2021, another new record number of Americans — 104,288 — died of drug overdose, with opioids accounting for 78,388 deaths.<sup>3</sup> “The United States hoped,” an international diplomat opined, “that it could schedule its way out of the opioid epidemic. That has not happened.”<sup>4</sup>

While the direct smuggling of fentanyl to the U.S. from China by mail has declined dramatically, massive flows continue to the U.S. from Mexico. Chinese drug suppliers and Mexican criminal groups have also adapted by synthesizing fentanyl from nonscheduled chemicals — so-called pre-precursors — most of which are dual use, meaning that they can also be used to produce legitimate pharmaceuticals. Thus, their widespread utility in global chemical and pharmaceutical production means that there is no global appetite for scheduling vast numbers of precursor and pre-precursor agents.

Meanwhile, U.S.-China counternarcotics cooperation, never easy, continues to struggle.

China sees counternarcotics and more broadly international law enforcement cooperation as a strategic tool that it can instrumentalize to achieve other objectives. As Beijing’s hopes for prospects of improvements in U.S.-China relations have declined, so too has China’s willingness to coordinate with Washington on counternarcotics.

The United States blames China for poor domestic enforcement of its regulations, inadequate actions against Chinese drug smugglers and money launderers, and insufficient regulatory oversight of its nonscheduled chemicals. Highlighting that

it does not have any fentanyl abuse problem and thus its regulatory actions are motivated purely to help the United States, China rejects Washington's claims and blames the opioid epidemic solely on America's internal failings. The extent of counternarcotics cooperation – or its absence – remains determined by the state of U.S.-China overall geopolitical relationship, which has deteriorated over the past decade and shows few prospects for improvement. Thus, the hope that, despite the geopolitical rivalry, counternarcotics could prove a domain of U.S.-China cooperation has not yet materialized.

Nor has China been interested in robust cooperation with Mexico, a country whose willingness to collaborate with the United States on drug enforcement has also declined substantially over the past several years. U.S. indictments of Chinese individuals, companies, and other entities on drug trafficking and other charges, most recently in December 2021,<sup>5</sup> have not incentivized China to cooperate more closely. Instead, such designations and sanctions, however merited, have reinforced the defensive crouch and minimal collaboration that have characterized China's attitude toward counternarcotics collaboration with the U.S. since Washington's blaming of China for the coronavirus (COVID-19) pandemic.

Nonetheless, especially in the Asia-Pacific region where China most intensely seeks to project its influence, China remains conscious of its image. In international fora too, China does not want to be painted as a problem. Thus, China will apply pressure on third countries to dampen or avoid criticism of China, though it will frequently give little in return for avoidance of censure.

China's posture toward the scheduling of fentanyl and its precursors and the enforcement of China's regulations thus mimics its posture and policies toward methamphetamine production and precursors that also originate in China and supply the illegal meth market across the Asia-Pacific region. Long denying its responsibility for the flow of meth precursors, China has only reluctantly increased its willingness to cooperate with regional countries on meth precursor enforcement.

Rarely targeting Chinese criminal networks, many of which often serve a variety of China's political, economic, and strategic interests, China's law enforcement in the Asia-Pacific remains self-serving, selective, and constrained.

Both with respect to meth and fentanyl precursors, China mostly maintains that the processing of these precursors into scheduled substances is the problem and responsibility of the countries where the processing takes place, such as Myanmar or Mexico. China exercises most efforts in counternarcotics collaboration when the drug is extensively consumed in China or when law enforcement operations counter capital flight from China.

In contrast, China's counternarcotics diplomacy in the region and beyond is very active, with Beijing seeking to dominate international policies and narratives and build up strong influence over regional and international law enforcement and counternarcotics bodies. Particularly amidst the intense challenges in the U.S.-China bilateral relationship, such multilateral fora provide an important venue to incentivize China to mount stronger regulatory and enforcement measures at home and intensify its international law enforcement cooperation.

China's role in the smuggling of synthetic opioids, methamphetamine, and their precursors intersects with and is a preview of dramatic changes in global drug markets that have materialized over the past decade. Just as in North America, fentanyl had displaced drugs such as heroin and cocaine, in Asia and the Pacific meth has come to dominate while the heroin market is declining.<sup>6</sup> And in a matter of time, synthetic opioids, with all of their lethal consequences, are likely to find a robust market in Europe and the Asia-Pacific.

Providing drug traffickers with many advantages, the synthetic revolution allows for the production of a vast array of new recreational drugs, including immensely deadly ones, from a wide range of dual-use chemicals, the widespread use of which makes regulatory and enforcement measures more challenging and elusive than ever. Indeed, the revolution in the global drug markets can be observed through the dynamic evolution of the supply of synthetic drug precursors. The lifetime of this evolution might be very short, but it provides for rapid innovation. Around the world, criminal groups are moving into synthetic drugs, with some of the biggest illegal drug-market stakeholders — the Chinese triads and Mexico's Sinaloa Cartel and Cartel Jalisco Nueva Generación (CJNG) — already largely reoriented toward synthetic drugs.<sup>7</sup>



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### ***Report aims***

This report explores the evolution and enforcement of China's synthetic opioid and methamphetamine regulations. It studies China's counternarcotics policies within the country and abroad, in its relationship with the United States and in its collaboration with the countries of Southeast Asia and the Pacific as well as with Mexico. It also explores the evolution of Chinese criminal networks in the illicit drug economies in these regions.

This report is part of a series of Brookings reports, briefs, and blogs coming out in the spring and summer of 2022 on the role of Chinese actors in a variety of illegal economies, including drug trafficking, wildlife trafficking, and human trafficking. They explore the role of Chinese actors in and the responses of the Chinese government toward these illicit economies, in terms of the enforcement of China's regulations at home and China's willingness to provide international law enforcement collaboration. They thus explore when and how China shares information and intelligence with other countries, acts on foreign indictments of Chinese nationals, uses its law enforcement attachés abroad, and delivers law enforcement training and advice. The reports examine the conditional relationship between China's willingness to extend or deny its law enforcement collaboration in the context of its effort to project influence abroad and the way it uses international collaboration (or lack thereof) to achieve international political outcomes. The reports also explore China's narratives and counternarratives about these illicit economies.

The first section of this report analyzes the evolution of drug policy and its enforcement regarding synthetic opioids in China, including the effects of drug scheduling and the extent of interdiction within China. It also examines the adaptation of China's drug markets and drug traders, including toward pre-precursor agents. It continues by discussing the structural challenges of dealing with precursors for synthetic drugs, and provides a comparison of regulatory and enforcement challenges regarding synthetic drugs and their precursors in India. It also examines the role of the U.S.-China geopolitical context on counternarcotics cooperation and provides a case study of China-Australia cooperation on meth and its evolution, including the role of geopolitics in that bilateral relationship.

The second section explores China's public narratives regarding fentanyl and the U.S. opioid epidemic.

The third section analyzes China-linked drug trafficking in Southeast Asia and the Pacific and China's regional counternarcotics cooperation there. It looks at the footprint and key characteristics of Chinese illicit drug and organized crime networks in the region. It also sketches these networks' complex relations with Chinese authorities and highlights the ways the networks sometimes promote China's interests — a factor that shapes Beijing's willingness to act resolutely against them. Next, the section provides a snapshot of drug trafficking in Southeast Asia and the Pacific since the onset of the COVID-19 pandemic. It explores China's regional counternarcotics diplomacy and China's actual on-the-ground law enforcement counternarcotics and anti-money laundering operations in the region and its regional law enforcement collaboration, identifying China's law enforcement priorities and constraints in its regional engagement. Honing in on China's role in regulatory and enforcement controls on meth precursors, the section also provides a case study on Myanmar and draws lessons from it.

The third section analyzes China-linked drug trafficking and money laundering and illicit value-transfer in Mexico and China-Mexico anti-drug collaboration. It explores the footprint of Mexican drug trafficking groups in China and of Chinese illicit drug and money laundering operators in Mexico. In detailing the lack of China-Mexico counternarcotics collaboration, the section also sketches the limitations of Mexican law enforcement in stopping the flows of meth and fentanyl precursors.

The concluding section explores a set of policy recommendations, including:

- encouraging voluntary controls within China's and international chemical and pharmaceutical industries;
- emphasizing China's reputational costs and collaborating with allies and partners to send coordinated messages to China;
- incentivizing China to adopt more robust anti-money laundering measures;
- designing portfolios of leverage against Chinese trafficking networks, non-compliant companies, and business leaders.

While these measures would be helpful, none of them individually or collectively, nor greater Chinese willingness to collaborate in better controlling precursor flows and suppressing drug trafficking, will end the U.S. drug epidemic or global



synthetic drug misuse. Indeed, the purpose of this report and more broadly of the entire series on China's role in various illicit economies is not to evaluate the best way to suppress a particular illicit economy and do a comparative pros-and-cons analysis of each possible tool of demand or supply reduction. Thus, this report does not examine how the United States can improve its treatment and prevention of opioid use disorder or what kind of law enforcement policies the United States can adopt at home. A detailed analysis of these various tools was provided in the 2020 Brookings paper series "The opioid crisis in America: Domestic and international dimensions."<sup>8</sup>

Prominent scholars of drug policy have emphasized that counternarcotics supply side measures are unlikely to change domestic drug use patterns, including with respect to the synthetic opioid crisis in North America, emphasizing instead tools such as supervised drug use and deterring internet sales of synthetic opioids.<sup>9</sup> The final report of the prestigious congressional Commission on Combatting Synthetic Opioid Trafficking published in February 2022 similarly stresses that "[t]he supply of illicit fentanyl cannot be permanently stopped through enforcement only," and details a wide set of domestic measures the United States can and should take to address the opioid epidemic and reduce its devastating effects.<sup>10</sup>

Merely from the perspective of the challenges of controlling supply in synthetic drugs, this report fully concurs in emphasizing the importance of U.S. domestic prevention, treatment, harm reduction, and law enforcement measures and the limitations of supply-side control, even should China radically alter its posture toward counternarcotics cooperation against Chinese drug trafficking networks and start robustly engaging in supply control measures toward synthetic opioids, methamphetamine, and their precursors originating in China. It is likely that the most powerful measures to address opioid crisis are internal policies such as expanded treatment and supervised use.

However, given the extent and lethality of the synthetic opioid epidemic in North America and its likely spread in time to other parts of the world, even supply control measures with partial and limited effectiveness can save some lives. That is a worthwhile objective. The Commission on Combatting Illicit Opioid Trafficking also stresses that targeted supply reduction and the enforcement of current laws and regulations are essential to disrupting the availability of chemicals needed to manufacture synthetic opioids. Equally important are improved oversight of large chemical and pharmaceutical sectors and enhanced investigations of vendors or importers in key foreign countries.<sup>11</sup> The report's supply-side control recommendations include reducing online advertising; encouraging enhanced anti-money laundering efforts in China (and Mexico); enhanced interdiction efforts; increased international scheduling of at least synthetic drug precursors that are only used for illicit purposes and enhanced control of precursor flows through collaboration with China and international counternarcotics organizations.<sup>12</sup>

My report's recommendations focus on how to get China to accept such enhanced controls as well as highlight the difficult constraints on shaping China's behavior toward such desired outcomes. Beyond the direct goal of preventing drug misuse and overdose in the United States and around the world, the United States also has broad global order incentives to encourage China broadly to adopt co-responsibility

toward illicit economies in which Chinese actors play a prominent role and toward reducing the impunity of Chinese crime networks, meaningfully sharing intelligence, acting on international indictments, and fostering rule of law at home and abroad.

### ***Methodology***

In addition to consulting the existing literature and building on the author's prior report "Fentanyl and geopolitics: Controlling opioid supply from China,"<sup>13</sup> the report is principally based on the author's 94 interviews with U.S., Mexican, and international drug policy officials, diplomats, law enforcement officials, and experts. She conducted these interviews in person across various parts of Mexico, and used encrypted virtual platforms to conduct interviews with subjects from China, Thailand, Vietnam, Europe, Canada, Australia, New Zealand, Cambodia, and Myanmar. Interviews with U.S.-based interlocutors were both in person and virtual. All of the interviews were conducted under extreme sensitivity concerning possible retaliation by China's government, such as in the form of visa denial. In some cases the interviewer and those interviewed were subject to threats to safety and life from Mexican or Chinese criminal groups. Thus, not only are all the interviews reported below without the use of the name of the source, but at times their location and other identifiers of the interlocutor had to be obscured further. China's new rules mandating that Chinese citizens seek prior clearance from the Chinese government before engaging with U.S. and international academics complicated the interviews further. And while Chinese citizens increasingly fear to voice criticism of the Chinese government, the access to China for foreign researchers and government officials and information about Chinese law enforcement issues have also diminished significantly compared to even just a decade ago.

The report is additionally informed by the examination of hundreds of Chinese and international media articles and official government accounts of China's public narratives and policy attitudes toward fentanyl, meth, and precursor control.

## II. DRUG POLICY, ENFORCEMENT, AND MARKET DEVELOPMENTS INSIDE CHINA

This section analyzes the drug market implications of Beijing's May 2019 regulation placing the entire class of fentanyl-type drugs under regulatory control. It also analyzes China's enforcement of the new regulation. It continues with an analysis of the subsequent drug market adaptations in China and shifts toward precursor and pre-precursor smuggling as well as China's policy responses toward these adaptations.

The evidence shows that China's scheduling of drugs alone has significant effects on the behavior of Chinese sellers and international drug trafficking patterns, even in the absence of robust enforcement. This scheduling creates both deterrent effects and barriers to entry for unscrupulous sellers and traffickers and forces adaptations in the drug markets. However, the extent of enforcement of the policy within China remains highly opaque. It is likely inadequate.

The section also discusses how the deteriorating geopolitical situation between the U.S. and China has undermined counternarcotics cooperation. It also provides a comparison with China-Australia counternarcotics cooperation, again showing that the larger geopolitical relationship undermines China's willingness to engage in law enforcement cooperation with Western countries. To the extent that China is dissatisfied with these broader relationships or feels that it is not getting what it seeks from the cooperative-enforcement arrangements — namely, the arrests and extradition to China of Chinese nationals accused of economic crimes in China and the seizure of their assets — it scales back its law enforcement cooperation with the Western counterparts.

At the same time, as detailed below, China increasingly sees law enforcement cooperation as one of the leading tools in its foreign policy for expanding its international influence. Counternarcotics cooperation, when granted, is embedded within a broader effort by China to use law enforcement cooperation as a mechanism to pull other countries closer into its orbit.

Overall, the effects of drug and precursor scheduling are not sufficient to accomplish the U.S. goal of stemming the flow of synthetic opioids into the United States and prevent China from being at least an indirect source of precursors and pre-precursors. Nor is there any easy way to suppress the flow of precursors and pre-precursors from China, given the structural obstacles to effective control of precursors for synthetic drugs. This section also provides a comparison with synthetic drug controls in India, which the U.S. seeks to cultivate as a strategic partner (in contrast to China), showing that the controls in India are even poorer than in China.

### ***The effects and enforcement of China's scheduling of fentanyl-class drugs***

After years of intense U.S. diplomacy, Chinese President Xi Jinping announced at the December 2018 G-20 summit that China would place the entire class of synthetic opioids on a regulatory schedule.<sup>14</sup> According to former and current U.S. government officials and international drug policy and China experts, the U.S. request to China

to schedule an entire class of drugs that had precipitated the announcement was a significant ask in the U.S.-China bilateral relationship.<sup>15</sup> International drug policy officials shared that assessment, pointing out that China had to pass new laws to be able to do so, and that the U.S. is the only other major country that has controlled the entire class of fentanyl drugs.<sup>16</sup>

### *Effects of scheduling*

Following Xi's announcement, even before the scheduling went into effect in May 2019, the amount of direct fentanyl smuggling to the United States — until then often shipped in mail parcels containing fentanyl of over 90% purity — fell off dramatically.<sup>17</sup> Direct mail shipments appeared to decline by 90% from 2018 to 2019,<sup>18</sup> a reduction facilitated by China's acceding to U.S. requests to better monitor and control its postal services and China's compliance with the 2018 U.S. Synthetics Trafficking and Overdose Prevention (STOP) Act.<sup>19</sup> The STOP Act mandated that U.S. Postal Service receive advanced electronic data on 100% of inbound packages from China. This trend only intensified after the legislation went into effect in May 2019, after which China's Ministry of Public Security (MPS), the State Drug Administration, and the National Health Commission advertised the placement of the entire class of fentanyl drugs on China's "Supplementary List of Non-medicinal Narcotic Drugs and Psychotropics Drugs," requiring that any production, sales, and exports of fentanyl-class drug receive special government permits.<sup>20</sup> Top-level officials at those agencies as well as the China National Narcotics Control Commission (NNCC) also apparently engaged in an intense messaging campaign within China in 2019 about the fentanyl scheduling, sending a strong signal to the entire industry that fentanyl-class drugs would now be controlled.<sup>21</sup> However, since the escalation of U.S.-China tensions in 2020 and 2021, this messaging appears to have significantly dropped.<sup>22</sup> Still, the trafficking of scheduled fentanyl from China directly to the U.S. has not rebounded.

An analysis by the Center for Advanced Defense Studies (C4ADS) of online sales of fentanyl by Chinese companies also showed pronounced changes subsequent to the scheduling. In early 2019, before the scheduling went into effect, fentanyl ads were readily present on the Clear Web, the more accessible region of the internet that most users are familiar with, consisting of public websites that are indexed in search engines and available to anyone to access. After the May 2019 scheduling, it became much harder to locate ads for fully synthesized fentanyl on the Clear Web, with sales migrating to the Dark Web.<sup>23</sup> Even on the Dark Web, communications between Chinese vendors and potential buyers indicated that it became much harder to source scheduled substances like fentanyl in China.<sup>24</sup> Instead, sellers would frequently direct buyers toward unscheduled precursors and non-fentanyl class synthetic opioids.<sup>25</sup>

Various drug policy officials and experts interviewed by the author for this report opined that the drop-off of direct fentanyl smuggling from China to the United States indicates that when a regulatory decision comes from the top of China's government, it is often implemented rapidly.<sup>26</sup> Such compliance, however, does not mean that adaptations to evade and subvert the regulation do not emerge in China — indeed, they frequently do. In this case, Chinese traders and drug traffickers adapted by supplying fentanyl precursor and pre-precursor agents to buyers, including criminal groups, abroad.

### ***Enforcement of scheduling***

Beyond relying on the deterrent effects of their messaging, Chinese government officials also appeared to have undertaken some enforcement actions in the form of inspections, raids, and prosecution. A January 2020 report by the U.S. Drug Enforcement Administration (DEA) reported that Chinese authorities increased investigations of known manufacturing sites of fentanyl, shut down some websites selling fentanyl, and created special investigation teams.<sup>27</sup> However, Appendix E of the February 2022 final report of the Commission on Combatting Synthetic Opioid Trafficking showed that China's good manufacturing practice certification inspections, meant to uncover illicit drug production and diversion, peaked in 2017 and substantially declined since, as has the number of inspectors.<sup>28</sup>

Pointing to several examples, an international drug policy official in Southeast Asia noted that when the United States seizes a fentanyl shipment and provides documentation to China about it, the Chinese government will follow up with an investigation. He added, however, such investigations will often take a lot of time and will need to overcome a substantial amount of bureaucratic hurdles within China.<sup>29</sup> International drug policy officials and experts also stated in interviews with the author that Chinese government officials identified and shut down some clandestine drug labs after May 2019, though the extent of the anti-fentanyl raids does not appear anywhere as intense as the extent of China's interdiction efforts to suppress domestic illegal production of methamphetamines in the early 2010s.<sup>30</sup> These efforts provide for a helpful case study (discussed below) with valuable lessons for China's handling of other illicit synthetic drugs.

However, the interviewees cautioned that international law enforcement and drug policy officials and experts fundamentally lack visibility into China's internal law enforcement actions, which has only intensified since the beginning of 2020 when China became the focus of a negative international spotlight due to the outbreak of the COVID-19 pandemic. Many interviewees reported Chinese officials did not share any information as to how many inspections and raids they conducted within China or how many Chinese nationals Chinese authorities designated or apprehended as drug traffickers.<sup>31</sup>

The most prominent case of prosecution and sentencing of fentanyl traffickers in China, resulted in the conviction of nine Chinese nationals for drug trafficking in Hebei province. In 2017, the U.S. Drug Enforcement Administration (DEA) provided Chinese counterparts with intelligence that led to the arrests.<sup>32</sup> U.S. officials were invited to the sentencing. The case remains perhaps the high mark of U.S.-China counternarcotics cooperation. But it took place when Beijing was still hoping that an improvement in U.S.-China relations was possible and saw counternarcotics cooperation as a mechanism to obtain it. As Beijing's perception of the likelihood of any improvement in relations has eroded, so too has its willingness to explore coordination on counternarcotics issues.



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It does not appear, however, that other high-profile prosecutions have taken place in China since. Nor could international diplomats and international drug policy officials posted in China or Southeast Asia or at international drug control bodies identify cases of Chinese law enforcement officials prosecuting other individual companies or traders for violations of the May 2019 regulation. They hastened to add, however, that China has become a black hole for visibility into internal law enforcement actions.<sup>33</sup> That said, after years of U.S. requests, China finally agreed to allow the DEA to open an office in Shanghai, somewhat expanding access for U.S. law enforcement agents in the country.<sup>34</sup>

Worrisomely, since the 2017 collaboration, Beijing has not followed up on other major U.S. indictments of Chinese nationals on drug trafficking charges. Consequently, in August 2019, the U.S. Treasury Department designated the Zheng Cartel, its leader Fujing Zheng, and his father Guanghua Zheng as violators of the Kingpin Act; in July 2020, Treasury added four other cartel operatives and the Global United Biotechnology Inc. (a storefront for the cartel) to the designation.<sup>35</sup> With operations in Mexico and cover companies including veterinary care, computer and other retail, and chemical companies, the cartel has been manufacturing and selling fentanyl and other drugs to the United States and 24 other countries. But Chinese authorities have not moved against the indicted individuals who remain at large.

Furthermore, enforcement in China faces structural problems. China's pharmaceutical and chemical industries involve tens of thousands of companies and hundreds of thousands of facilities, most of which do not produce fentanyl, but some of which could produce fentanyl clandestinely, while the number of inspectors has for years hovered in the low thousands or hundreds and appears to have declined (though Chinese authorities do not publish the precise number).<sup>36</sup> This low number of inspectors makes meaningful systematic inspections impossible, unless officials of the Ministry of Public Security are recruited for such purposes during particular raids.<sup>37</sup> Overlapping responsibilities of complex bureaucracies and frequent buck-passing have also hampered inspections. The huge chemical and pharmaceutical industries flourished in China in the 1990s in the absence of strong regulatory and monitoring frameworks, taking advantage of cheap abundant labor and few demands on quality control or pollution prevention. This weak regulatory framework persists today.

Some interviewed international drug policy officials suggested that intense domestic enforcement within China was perhaps not necessary because China's role in international illegal drug markets has shifted markedly toward nonscheduled precursors.<sup>38</sup> This position and situation is deeply troubling for the United States because these chemicals are used for the production of illegal fentanyl supplied to the United States and Washington would prefer some oversight of even non-scheduled precursors.

### ***Traffickers' adaptations and regulation and enforcement of precursor chemicals***

In contrast to finished banned substances, meaningful control of precursor chemicals is far more complicated, especially in the case of synthetic (as opposed to plant-based) drugs. Most precursor agents are not scheduled and many are dual-use chemicals with widespread legal application. The precursor market has also proven to be highly dynamic, rapidly adapting to new regulation and control efforts.

Indeed, as China scheduled fentanyl-class drugs, Chinese producers and traders moved to supplying nonscheduled precursors for the international illicit drug market. In March 2021, the deputy chief of foreign operations of the DEA, Matthew Donahue, noted that Chinese traffickers have virtually ceased to produce fentanyl analogues and focus solely on precursors, “with an unlimited and endless supply of precursor chemicals... coming from China to Mexico” where they are produced into fentanyl or meth and trafficked to the United States.<sup>39</sup>

In January 2018, China scheduled the two then-most-frequent fentanyl precursor agents, NPP and 4-ANPP, inviting U.S. officials to attend the scheduling announcement.<sup>40</sup> More than a year later, the U.S. Department of State was still reporting that more than half of the global suppliers of NPP and 4-ANPP were based in China.<sup>41</sup> But in time, as with the subsequent scheduling of all fentanyl analogues, the scheduling had pronounced and rapid effects. Once again, Chinese traders and traffickers moved away from exporting the scheduled precursors, concentrating instead on those that have not been scheduled, such as 4-AP, and developing other nonscheduled options.<sup>42</sup>

But the constant movement toward nonscheduled drugs hampers international control efforts. Chinese traders (many of them legitimately-registered chemical and pharmaceutical companies in China) sell 4-AP to Mexico, even as Mexican authorities reported in 2020 increased seizures of 4-AP.<sup>43</sup> Mexico scheduled 4-AP in May 2021 (4-ANPP and NPP came under international regulatory control in 2017), along with three other chemicals,<sup>44</sup> but China had not at that time. Chinese sellers include legal companies selling a wide variety of products as well as actors who specifically cater to drug traffickers

A C4ADS “Synthetic Drug Supplier Database” of 103 entities noted that 65% of them had corporate registries in mainland China or Hong Kong. It also emphasized that many were connected to larger corporate networks in China and affiliated with multiple entities to hide ownership through a complicated hierarchy of layered corporations.<sup>45</sup> Appendix E of the final report of the Commission on Combatting Synthetic Opioid Trafficking similarly noted that alleged Chinese producers of illicit synthetic drugs tend not to be located in regions with a known concentration of pharmaceutical and chemical companies.<sup>46</sup>

Chinese sellers who purposefully cater to drug trafficking groups in their directed advertisements often bundle uncontrolled fentanyl precursors, common cocaine adulterants, and unscheduled methamphetamine precursors. Even if they may not be violating China’s law, they appear to be purposefully catering to international, including Mexican, drug trafficking networks. Some of their ads even highlight their capacities to “clear customs in Mexico.”<sup>47</sup> As of the research for this report in December 2021, thousands of ads in Spanish appeared to be posted online by Chinese sellers promoting precursors to Mexican drug trafficking groups.<sup>48</sup> In other cases, Chinese companies operating online without Chinese internet signatures advertised their connections to international drug traffickers, such as in India, to appeal to illegal buyers in Mexico.<sup>49</sup>

Yet the government of China has only sometimes acted against such sellers. When queried by international journalists, Chinese law enforcement officials apparently responded that they could not take enforcement actions against the sales of

chemicals not scheduled in China, but added that they would contact the export companies and warn them about their engagement in problematic actions with legal ramifications abroad.<sup>50</sup> China's Daily, a Chinese government-controlled newspaper, reported in June 2021 that the Chinese government has asked 55 internet and logistics companies to sign a letter of commitment to help with anti-drug efforts.<sup>51</sup> Given the power of Chinese law enforcement officials, such warnings could create substantial deterrence. However, it is not known how frequently Chinese officials issue such warnings.

In fact, China's enforcement team specializing in precursor chemicals numbers very few officials, making it difficult for China to mount expanded law enforcement operations without recruiting new dedicated personnel.<sup>52</sup> Moreover, precursors and pre-precursors are also often coded in online sales and mislabeled during shipment. While Chinese shippers are expected to keep logs of their transactions, China's implementations of know-your-customer regulations remain below U.S. standards.<sup>53</sup>

Additionally, violations of precursor sale regulations in China frequently carry only administrative penalties, such as the seizure of assets and chemicals, and not necessarily criminal penalties, thus weakening the deterrence effects of China's enforcement efforts even when they are mounted.<sup>54</sup>

Regulatory and enforcement controls on the export of pill presses, used by criminal groups around the world, including Mexican cartels, to produce dangerous fake pills, such as Oxycontin, remain weak in China.<sup>55</sup>

The enforcement of precursor and fentanyl analog controls is also complicated by the challenge of systemic corruption in China and the incentive structures within which Chinese officials operate. Even with Xi Jinping's intense anti-corruption efforts,<sup>56</sup> designed mainly to consolidate his power, eliminate independent sources of influence, and improve the image of the Chinese Communist Party (CCP), many mid-level and senior CCP officials remain rent-seeking, with their bureaucratic and power advancement still linked principally to job creation and economic growth in their areas, even if those objectives are accomplished through means that are illegal or problematic.<sup>57</sup> Given the political power of China's chemical and pharmaceutical industries and the extent of tax revenues and jobs they generate, many Chinese officials are reluctant to monitor, investigate, prosecute, or otherwise cross significant industry players. Small and middle-level actors are more likely to become targets if and when enforcement action is taken.

But in the case of fentanyl and its precursor chemicals, small and middle-level actors also appear to be the key perpetrators of regulatory violations and a source for Mexican criminal groups. Moreover, given that fentanyl is a very small source of earnings for China's chemical industry, powerful Chinese industry actors have little interest in protecting fentanyl and fentanyl precursor production, beyond simply seeking to minimize any oversight into their production and business practices.

Informally, Chinese government officials have long become accustomed to unofficially extending the umbrella of party protection and government authority to actors who operate in both legal and illegal enterprises as well as outright criminal groups.<sup>58</sup> The frequent appointments of former party officials to business boards could facilitate monitoring and oversight, but frequently enables this unofficial



protection and facilitates corruption. However, this clear pattern of behavior is not centrally organized, systemically endorsed, or openly tolerated behavior. It has also been weakened by Xi's post-2012 anti-corruption drives.<sup>59</sup> Even so, a seemingly very dominant and all-powerful state is riddled with "bureaucratic slack," enforcement inefficiencies, and a proclivity to seek legal and bureaucratic loopholes. Moreover, different provinces often develop distinct forms of illegal bureaucratic protection, complicating uniform, systemic, and efficient application of rule of law.<sup>60</sup>

### ***Structural challenges of dealing with precursor chemicals***

U.S. opioid diplomacy with China has focused intently on asking Beijing to schedule further fentanyl precursor chemicals, including in 2021 4-AP and two other substances without known legal use. Several interviewed international drug policy officials expressed optimism that China would schedule these three chemicals in 2022, perhaps as part of global scheduling expected in March 2022.<sup>61</sup>

They voiced the expectation, however, that other nonscheduled precursors will rapidly replace these chemicals in international illicit drug markets, because merely changing one molecule in the chemical structure of the precursor or pre-precursor will make the substance legal and not controlled. Just as Mexican cartels have been actively hiring university chemists in Mexico to develop easily and locally available precursors and synthesis methods for methamphetamine, thus bypassing international controls, they are hiring the chemists to do so with fentanyl and synthetic opioids. Already, Mexican criminal groups have become so skilled in chemical innovation and drug production from widely available chemicals that they are "producing meth essentially from 'nothing,'" as an international drug policy official put it.<sup>62</sup> The CJNG — along with the Sinaloa Cartel, the dominant Mexican drug trafficking group and fentanyl supplier to the United States<sup>63</sup> — has, for example, taken advantage of the COVID-19 dislocation to recruit chemists and advanced chemistry students and recent grads from universities in Michoacán and Mexico City.<sup>64</sup>

The enforcement of controls on precursors for synthetic opioids, like of the finished synthetic opioids themselves, is further complicated by the fact that the smuggled quantities necessary for supplying large drug markets are very small: As the Commission on Combatting Synthetic Opioid Trafficking estimated, only 3 to 5 metric tons of pure fentanyl are necessary to satisfy the entire U.S. annual consumption of illicit opioids, while 47 tons of heroin and 145 metric tons of cocaine were consumed in the United States in 2016.<sup>65</sup> The volumes of precursor agents for synthetic drugs is tiny in comparison with the total volume of chemicals produced by chemical industries which include tens of thousands of companies. Searching through tens of thousands of container shipments loaded with legal goods to identify and locate the contraband is very resource- and time-demanding and an enormous enforcement challenge. Globally, perhaps 2% or less of maritime containers is inspected for drugs and other contraband.<sup>66</sup>

Moreover, in a matter of time, drug trafficking groups are likely to start producing synthetic opioids and other synthetic drugs from precursors and pre-precursors with such widespread legal use that countries will refuse to schedule them. Already Chinese officials note in conversations with their U.S. and international counterparts that extensive limiting of pre-precursors would be detrimental to China's legal

chemical industry, stressing that even if a particular chemical does not have legal uses today, it is advantageous to keep it unscheduled to enable research and the development of legal uses in the future.<sup>67</sup>

Such reluctance is not unique to China. In fact, characterizing China's attitude toward precursor scheduling as "active, if not necessarily proactive," international drug policy officials noted that China has scheduled many more precursor agents than other countries apart from the United States. They also emphasized that, unlike China and the U.S., the vast majority of countries have not scheduled the entire class of fentanyl drugs and that there was little international appetite for any extensive international scheduling of



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new substances, let alone classes of drugs.<sup>68</sup> Since 2014, 68 chemicals have been added to the United Nations lists of controlled substances, but only three, including 4-ANPP and NPP, have been precursor agents.<sup>69</sup> And the scheduling is slow, often taking 12 to 18 months to add a new substance to the controlled list, by which times chemists working for smuggling networks may have already changed the chemical composition of the precursor or developed new precursors.<sup>70</sup>

The three cornerstone international drug treaties — the 1961 United Nations Single Convention on Narcotic Drugs, the 1971 United Nations Convention on Psychotropic Substances, and 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances — require that precursor chemicals are scheduled as individual chemicals and do not allow for the scheduling of an entire class of precursors.<sup>71</sup> Yet drug trafficking networks easily overcome the individual-listing requirement by altering a single molecule in the chemical structure of the precursor. As international drug policy actors noted, very few countries, let alone chemical and pharmaceutical industries, want lists of scheduled substances numbering thousands.<sup>72</sup> Nor would custom systems in most countries be able to process, correctly identify, and sort through large volumes of chemicals comparing them against reams of controlled substances.

And as with all drugs and international drug control efforts, there is also the high likelihood of two types of so-called balloon displacement effects.

First, if extensive scheduling of fentanyl precursors and pre-precursors took place, traffickers could more robustly prioritize the production and trafficking of synthetic opioids with a non-fentanyl molecular structure. Such structurally different synthetic opioids already exist, and more are likely to emerge, especially given how crucial opioids are in medicine and the extent of research into opioids taking place. In fact, new non-fentanyl-related opioids used for illegal recreational purposes are emerging rapidly,<sup>73</sup> even as drug trafficking groups in North America are exhibiting a strong consolidation toward fentanyl production and trafficking. These new opioids could very easily bring with them a new devastating next wave of drug-related deaths.

Second, the production of fentanyl and other precursor agents as well as finished illicit synthetic drugs could disperse from China and, as will be discussed in greater detail shortly, from India to other countries with large chemical industry infrastructures, such as Nigeria, South Africa, or Indonesia, or vast illegal synthetic drug production, such as Myanmar or the Netherlands.

No flow or seizure of fentanyl in Myanmar has yet been confirmed. In 2020, a possible fentanyl seizure, allegedly diverted from legal production in India or China, was reported there. But the reports were not confirmed, as the seized chemicals were destroyed before being tested in a lab to confirm or disprove the field test conducted with a handheld device. Thus, skepticism about the validity of the fentanyl identification has emerged.<sup>74</sup> However, Myanmar is a likely candidate for eventual fentanyl production if and when fentanyl use in Southeast Asia and Australia takes off, an expansion of fentanyl markets which many international drug policy experts and officials expect.<sup>75</sup> Myanmar has extensive synthetic drug production infrastructure, highly-skilled Chinese and Taiwanese chemists, a thick presence of Chinese drug smuggling networks, and overall very mature, diversified, and resilient drug supply chains.

It is interesting to note that Dutch ecstasy and methamphetamine producers have so far not jumped on the synthetic opioid bandwagon despite their extensive production and smuggling structure, whether because dealers in Western Europe have so far stayed away from synthetic opioids or because the Dutch producers calculate that moving into synthetic opioids and the associated devastation of lethal overdose would expose them to far greater scrutiny from law enforcement than the production of ecstasy and meth. Wherever the production of opioid precursors and finished opioids were to shift from China, the control and law enforcement challenges would be different, but not necessarily less and easier to address than with China.

# THE INDIA COMPARISON

India, a country which the United States continues to cultivate as a strategic partner to check any aggressive expansion of China in the Indo-Pacific and which, along with Japan, Australia, and the United States, is part of the so-called Quadrilateral Security Dialogue (better known as the “Quad”), provides a useful comparison for assessing drug control challenges with China. India has a long history of illegal drug cultivation, smuggling, and illegal distribution of legal medicines or fake medicines, with poor regulatory oversight and an export-oriented growth model in recent decades.<sup>76</sup>

Like China, India has long been an exporter of precursors and illegal synthetic drugs to global drug markets. Since India does not report the volumes of its seizures or domestic law enforcement actions, the exact volumes of illicit drugs or precursors flowing from India to international drug markets is not known, but several international drug policy officials and former international law enforcement officials assessed them as likely very large.<sup>77</sup>

Like China, India has been a massive source of methamphetamine and fentanyl precursor chemicals, regulating only some.<sup>78</sup> Mostly adopting a posture of “dismissiveness and defensiveness” in international settings, India has been even more reluctant to discuss and admit its role in problematic precursor sales and smuggling.<sup>79</sup> And like from China, various types of synthetic drugs are illicitly exported daily from India, including to the United States.<sup>80</sup> For years, India’s pharmaceutical companies were completely indifferent to the effects of their exports of another type of opioid — industrial-potency tramadol<sup>81</sup> — throughout the Middle East and Africa, where a dangerous tramadol epidemic had emerged. Although prohibited for human consumption in India itself and at such level of potency illegal in various African countries, Indian companies exported the drugs into the regions, reflecting India’s loosening of export requirements for various drugs, including tramadol.<sup>82</sup> These measures were motivated to increase access to medications, including pain treatment, and promote the pharmaceutical industry.<sup>83</sup> The third largest by volume in the world — worth \$42 billion in 2021 according to India Brand Equity Foundation — India’s pharmaceutical industry is the largest producer of generic drugs in the world, accounting for 20% of global volume.<sup>84</sup>

India does not list fentanyl among its scheduled substances, though fentanyl is designated as a manufactured drug and thus legally restricted

through the 1985 Narcotic Drugs and Psychotropic Substances Act (NDPS).<sup>85</sup> But, consistent with its regulatory approach to loosen controls for pain medications and allow wider access to them, in 2014, India amended the NDPS Act to categorize fentanyl as an essential narcotic drug to permit its use in medicine and science.<sup>86</sup>

The 1985 NDPS is the cornerstone of India’s narcotic drugs regulatory framework.<sup>87</sup> It has been amended repeatedly, but its current version still does not control pill presses or their exports. But its implementation is cumbersome and often requires going through state and central level agencies, a slow, unwieldy, fragmented, and complex process, especially for the application of emergency counternarcotics controls.<sup>88</sup>

With the Indian government promoting India’s pharmaceutical industry globally, the sector — as well as the country’s chemical industry — is politically powerful. There are some 3,000 drug companies in India and 11,000 facilities.<sup>89</sup> India’s government regulatory and enforcement controls also tend to be weak, with regulatory capture and corruption extensive.<sup>90</sup> India’s bureaucracies are replete with loopholes and “chaotic, messy, slow, and inadequate for appropriate counternarcotics control,” as an international drug policy official put it.<sup>91</sup> Most licensed pharmaceutical companies are rarely inspected by Indian government authorities, allowing many unlicensed companies to operate. Enforcement of regulations is rare. That said, according to U.S. Food and Drug Administration (FDA) which also conducts inspections abroad to ensure the quality of drug imports to the United States, India has had a higher than China responsiveness to FDA complaints and more frequently undertook required actions to address violations. From 2012 to May 2020, one in seven inspections resulted in regulatory or administrative action in India, compared to less than one in ten in China.<sup>92</sup> India’s Department of Pharmaceuticals provides assistance to pharmaceutical companies, including financial aid, to make capital-intensive improvements to adopt good manufacturing standards and best practices.<sup>93</sup>

Mexican drug trafficking organizations have developed a network of suppliers of precursor or finished synthetic drugs in India.<sup>94</sup> After the May 2019 regulations came into effect in China, some of China’s traffickers began working with their Indian counterparts, including Indian pharmaceutical companies, to circumvent Beijing’s new regulations and smuggle fentanyl and precursors to the United

States.<sup>95</sup> However, a former Australian drug law enforcement official with extensive experience in South and Southeast Asia argued that the uncontrolled and illicit production of precursors in India and their export are so extensive that there is little need for any kind of collaboration between Chinese and Indian traffickers, with Indian traders easily able to supply global illegal markets with fentanyl precursors should flows from China dry up.<sup>96</sup>

Several international drug policy officials assessed that drug policy control in India is significantly below that of China in terms of legislation, scheduling, enforcement, and awareness.<sup>97</sup>

Nor has India engaged in many visible law enforcement actions against facilities and entities producing fentanyl or its precursors.<sup>98</sup>

International police collaboration with India is not straightforward. Comparing Australia's police collaboration with China and with India, an international law enforcement official noted that counternarcotics collaboration with India has been particularly difficult due to India's corruption and bureaucratic hurdles.<sup>99</sup>

That said, so far there does not appear to have been a wholesale switch of sales of fentanyl or fentanyl precursor sales from China to India and the extent of illicit fentanyl exports from India remains unclear. A 2020 study of the Dark Web sale advertisements identify Indian suppliers as the top sellers for certain types of illicit fentanyl analogues.<sup>100</sup> In contrast, a more recent investigation by U.S. experts on online illicit sales did not identify extensive online advertisement by Indian companies for unscheduled precursors or synthetic cannabinoids, and found only some 20 Indian companies selling the two controlled fentanyl precursors 4-ANPP and 4-AP, in comparison to some 60 such Chinese entities.<sup>101</sup>

And some progress with India has been achieved. After years of being criticized for the unrestrained exports of ephedrine, a methamphetamine precursor agent, which Myanmar drug traffickers were sourcing in India,<sup>102</sup> New Delhi finally did schedule ephedrine

and tightened controls on its trafficking even though India's pharmaceutical industry complained bitterly about its resulting financial losses<sup>103</sup> (even though some drug policy experts estimate the total value of the illegal market in ephedrine to be only in tens of millions of dollars,<sup>104</sup> hardly huge losses for the industry).

India also ultimately tightened controls on its tramadol exports. In 2017, U.S.-India cooperation led to the seizure of over one billion tablets of trafficked tramadol.<sup>105</sup> And in 2018, India brought tramadol export under legal control through an emergency act.<sup>106</sup>

Tighter controls on precursors, at least in terms of legislation, also extended synthetic opioids. In 2018, the Indian government placed NPP and 4-ANPP on Schedule B (middle level control)<sup>107</sup> and in 2020, after flows of India-produced 4-ANPP started showing up

in Mexico, upgraded both to Schedule A (the tightest level of control).<sup>108</sup>

In January 2020, in Operation Broadsword, U.S. and Indian authorities jointly inspected 800 international shipments containing counterfeit and illegal drugs, including opioids, heading to the United States. Millions of illegal tablets were seized.<sup>109</sup> No such similar joint operation of United States and China has yet been conducted. That same year, India and the United States established a bilateral Counternarcotics Working Group to expand cooperation against synthetic opioids, other drugs, and their precursors.<sup>110</sup>

The United States and China had previously established the Counternarcotics Working Group and the U.S.-China Bilateral Drug Intelligence Working Group,<sup>111</sup> but their effectiveness has been determined by the overall U.S.-China bilateral geopolitical context and, as that has worsened, has come to center mostly on information exchange, rather than, on the Chinese side, actual intelligence sharing and meaningful law enforcement and prosecution.<sup>112</sup>

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## ***The geopolitical context***

For a number of years, as U.S.-China relations began to deteriorate, U.S. government officials hoped that joint engagement on counternarcotics issues and cooperation against wildlife trafficking (discussed in a forthcoming companion report) could provide opportunities for preserving some positive aspects in the overall U.S.-China bilateral relationship.<sup>113</sup> Several China experts interviewed for this report in December 2021 also expressed the hope that U.S.-China counternarcotics engagement – perhaps in a multilateral setting also including Australia which has had the most advanced law enforcement cooperation with China of any Western country – could preserve a backdoor for communication amidst the deteriorating relationship and potentially during a long U.S.-China cold war.

The reality, however, has been the opposite – namely, that the overall geopolitical relationship deeply influences, and has sapped, the extent of U.S.-China counternarcotics collaboration. The persisting tensions between the two countries has led China to significantly scale down counternarcotics cooperation. At best, the U.S.-China counternarcotics engagement goes in fits and spurts, determined by the overall geopolitical environment.

International and regional counternarcotics officials and diplomats interviewed for this report noted a palpable worsening of the U.S.-China counternarcotics exchanges at multilateral fora over the past four years and particularly since the beginning of the COVID-19 pandemic and subsequent U.S. criticism of China for it.<sup>114</sup> That criticism, coupled with U.S. complaints of China’s weak synthetic opioids policy control, has put China in a “noticeably defensive mode vis-à-vis the United States even regarding fentanyl.”<sup>115</sup> Several current and former law enforcement officials in Southeast Asia also stated that the fentanyl and methamphetamine issues have for China become “conflated with geopolitics, making it very hard to get any information, let alone intelligence from China to anyone with whom it has bad relations, above all the United States.”<sup>116</sup>

In international and bilateral settings, China has reasserted its position that countering fentanyl and precursor chemical trafficking is something that China does as a *favor* to the United States because China claims that it does not have a fentanyl problem itself.<sup>117</sup> When faced with U.S. complaints about the lack of China’s regulation and enforcement regarding fentanyl and precursors, Chinese officials push back that U.S. opioid epidemic is not one of supply but a demand problem of the United States’ own making, originating in U.S. over-prescription of legal opioids in the 1990s and augmented by the U.S. failure to stop demand.<sup>118</sup> The Chinese also emphasize that they do not have the legal capacity to act against nonscheduled precursors.<sup>119</sup>



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Even technical law enforcement cooperation has experienced a downturn, with the mood between counternarcotics officials from both countries contentious. For some years, the DEA had surprisingly good technical cooperation with China's National Narcotics Control Commission, even at times when the U.S. Department of Justice and China's Ministry of Public Security had what a China expert described as a "terrible" relationship.<sup>120</sup> However, even the NNCC now appears to be caught up in the deteriorating geopolitical setting and under more pressure from MPS. Several U.S. China experts also noted that China has become disappointed with the lack of positive impact of China's fentanyl and precursor scheduling on other dimensions of the bilateral relationship.<sup>121</sup> As an international diplomat put: "Chinese officials argue that they scheduled fentanyl and precursors out of the goodness of their heart but now believe they didn't get anything out of it."<sup>122</sup>

Chinese officials also maintain that the fact that U.S. continues to sanction new Chinese entities, companies, and individuals for drug trafficking or under the Uyghur Forced Labor Prevention Act has significantly negatively impacted the possibility of counternarcotics collaboration.<sup>123</sup> The U.S. addition of the MPS's Institution of Forensic Sciences as well as China's National Narcotics Laboratory, for human rights and forced labor violations, to a so-called Entity List which prohibits the U.S. from sharing certain technologies with designated entities generated an intense uproar among Chinese diplomats and counternarcotics agencies.<sup>124</sup> Dismissing the designation as baseless and malicious and demanding that it be reversed, these diplomats and counternarcotics agency representatives underscored that such sanctions critically shrink the remaining space for counternarcotics cooperation and are a major blow to the possibility of U.S.-China counternarcotics collaboration.<sup>125</sup>

# THE AUSTRALIA COMPARISON

Nor is the United States the only Western country whose counternarcotics and law enforcement cooperation with China has been affected by changing geopolitics.

Between the 1990s and mid-2010s, Australia's methamphetamine market was supplied predominantly from China. The Chinese traffickers in southern China had organized production and shipments; recruited members of the Chinese diaspora in Australia received the shipments; and Australian and New Zealand motorcycle gangs, the latter increasingly violent, were key retail distributors.<sup>126</sup> As detailed in my previous report, "Fentanyl and geopolitics: Controlling opioid supply from China,"<sup>127</sup> Canberra invested heavily into building law enforcement collaboration with Beijing, starting with setting up law enforcement liaison offices in China in the mid-1990s. At first, China was defensive and dismissive about any claims it was the supply source of Australia's meth epidemic, an increasingly hot political issue in Australia. But over some years, China and Australia developed a strong working law enforcement relationship unmatched by any other country's law enforcement cooperation with China. The Australian Federal Police provided training to its Chinese counterparts in various police procedures, such as how to secure evidence custody chains, and developed highly professional peer-to-peer relations. China allowed Australia to post scores of Australian law enforcement officials in China and even agreed to joint operations against drug traffickers inside China.<sup>128</sup> The Sino-Australian cooperation culminated in the creation of a joint bilateral counternarcotics task force, Task Force Blaze, in November 2015 that scored important interdiction successes, repeatedly seizing large shipments of meth from China to Australia and leading to arrests of important drug traffickers in Australia and China.<sup>129</sup>

Most significantly, as described below, China ultimately became willing to move against Chinese trafficking groups and methamphetamine production in southern China, essentially shutting down its internal meth production.

China's own law enforcement interests that were not centered on counternarcotics were critical to the development of the bilateral law enforcement cooperation. With directives from Xi, who in 2012 launched his crackdown on "corruption and opulence," Chinese law enforcement was principally focused on getting Australia to ratify and implement an extradition treaty to repatriate Chinese nationals indicted in China on corruption and economic crime charges and hiding with their financial assets in Australia.<sup>130</sup> In 2006, Australia and China had signed the extradition treaty but because of China's human rights abuses, the Australian parliament has never ratified it.<sup>131</sup>

China-Australia law enforcement cooperation has significantly deteriorated since 2018.<sup>132</sup>

**Even the lengthiest, most advanced, and most robust law enforcement relationship between a Western country and China could not survive bilateral difficulties due to China's increased economic and strategic aggressiveness and the deteriorating geopolitical posture between the U.S.-led West and China.**

In December 2017, Australian Prime Minister Malcolm Turnbull began highlighting China's interference in Australian politics.<sup>133</sup> Fearing spying and subversion, and following the U.S. lead in 2018, Australia became one of the first countries to ban Huawei from the development of its 5G network.<sup>134</sup> Despite the significant economic inter-dependence of the two countries, with China being Australia's largest trading partner and

importing over a third of Australia's exports, such as iron and coal, China retaliated with intense economic pressure and diplomatic ostracism.<sup>135</sup> Unbowed by the high tariffs and economic embargoes, subsequent Australian administrations also interpreted China's increased assertiveness, including its militaristic challenges in the South China Sea, as dangerously destabilizing the world order beneficial to Australia. In turn, the CCP came to perceive Australia's actions as a direct challenge to the communist regime's and China's interests and intensified its suspicions of the Australia-U.S. alliance and Australia's membership in the highly select Five-Eyes intelligence-sharing club of the United States, United Kingdom, Canada, Australia, and New Zealand.<sup>136</sup> When after the onset of the COVID-19 pandemic, Australia called for an independent investigation into its sources, an infuriated China upped the economic pressure, banning more Australian imports and slamming tariffs on others.<sup>137</sup>



The bilateral and geopolitical tensions between the two countries hollowed out counternarcotics cooperation. Particularly since the onset of the COVID-19 pandemic, cooperation “has been almost totally wiped out,” as an international diplomat put it.<sup>138</sup> In short, even the lengthiest, most advanced, and most robust law enforcement relationship between a Western country and China could not survive bilateral difficulties due to China’s increased economic and strategic aggressiveness and the deteriorating geopolitical posture between the U.S.-led West and China. The September 2021 announcement of AUKUS, a trilateral Indo-Pacific security pact among the United States, Australia, and United Kingdom to counter China,<sup>139</sup> will likely cement for long time to come China’s evisceration of its law enforcement and counternarcotics cooperation with Australia.

Even as Australia-China counternarcotics cooperation was gutted, U.S.-Australia counternarcotics cooperation scored some important successes against synthetic drug smuggling. The second phase of Operation Iron Side, jointly conducted between the U.S. Federal Bureau of Investigation and the Australian Federal Police, led to the seizure of 6.3 tons of drugs and \$52 million in suspected crime proceeds in Australia and the arrests of over 1,000 suspected criminals around the world.<sup>140</sup>

### ***China's self-interest in being a tough drug cop***

China's own internal considerations have, however, prevented China from completely severing all counternarcotics cooperation with Western countries.

For over two decades now, China has positioned itself as a tough drug cop in global counternarcotics fora and within Southeast Asia.<sup>141</sup> Capitalizing on China's memories of abuse, subjugation, and shame related to the 19th century Opium Wars and the devastating opium epidemic in China early in the 20th century, the Chinese Communist Party has taken a similar staunch anti-drug attitude within China.

Both internally and externally, China emphasizes its "effectiveness" in stemming drug abuse in China, though in reality Chinese drug use has been growing steadily for the past four decades.<sup>142</sup> Even so, China's methamphetamine consumption, which Beijing has not been transparent about, is still likely modest in comparison with consumption in the United States, Western Europe, or Australia.<sup>143</sup> Officially, the Chinese government reports a decline in the number of synthetic drug users *registered* in China, with registration often being coerced and many users motivated to evade it.<sup>144</sup> To admit to it would require the CCP to admit to a flaw in Chinese society it prefers to deny, undermining its own emphasis on the weakness in U.S. society and its allegations of U.S. responsibility for the opioid epidemic.

Moreover, to admit to drug production within China or opioid and precursor trafficking from China would require the CCP to admit to structural weaknesses of its regulatory and enforcement systems, something it is loath to do to avoid harming its internal deterrence capacity vis-à-vis a wide set of actors and the image it wants to project externally of a responsible global power and tough drug cop.<sup>145</sup> To completely and visibly sever all counternarcotics cooperation with the West would of course also eviscerate China's internal and regional posture as tough on drugs.

### III. CHINA'S PUBLIC NARRATIVES ABOUT FENTANYL

Public narratives by the Chinese government and by Chinese media, most of which are controlled by the Chinese government, are very consistent with China's diplomatic positions: They blame the United States for its opioid epidemic and reject any Chinese responsibility. They portray China's fentanyl and precursor policies as strict and effective controls motivated by China's magnanimous and benevolent global counternarcotics role. They also describe China's collaboration with the U.S. as full and extensive, even though Washington does not reciprocate. The overarching position of the Chinese government is that the U.S. should stop criticizing and demanding further actions from China and instead focus on U.S. internal solutions to the fentanyl epidemic.<sup>146</sup>

The Chinese government officials insist that the United States alone is responsible for the opioid epidemic, identifying inadequate U.S. prescription opioid controls, the greediness of U.S. pharmaceutical companies, America's historic tradition of drug abuse and its culture and values linking drug use with freedom and individuality, and its lack of public anti-drug education, and cannabis legalization as the sources of the epidemic.<sup>147</sup>

Beijing resolutely dismisses U.S. claims that China is the source of fentanyl and precursor chemicals in the U.S. and Mexican criminal markets.<sup>148</sup> Its spokespersons claim that no illicit diversion from legal fentanyl factories in China has taken place, and to the extent any rare and small fentanyl smuggling from China does occur, it is insufficient to feed the U.S. illicit market, and is conducted by "lawbreakers ganging up with overseas crime groups."<sup>149</sup> China also maintains that the role of Chinese nationals in the trafficking of fentanyl and its precursors is minimal.<sup>150</sup> China moreover emphasizes that in those rare occasions, it has fully collaborated and shared information with the United States.<sup>151</sup>

China highlights its good-will international counternarcotics role, such as strengthening its controls on international parcel mail.<sup>152</sup> But it insists that it cannot act against substances not scheduled in China and those who trade in them, rejecting the designations of Jian Zhang and others as traffickers and demanding the United States removes its "bounty" on them.<sup>153</sup> It suggests that such designations by the United States are hypocritical and designed to divert attention from U.S. internal failings.<sup>154</sup> China also blames the United States for a lack of meaningful cooperation. NNCC Deputy Director Yu Haibin, for example, contended that the United States has not provided any evidence on illicit fentanyl and precursor flows from China or shared any intelligence, emphasizing along with other officials that the U.S. is the world's largest producer and consumer of fentanyl-related substances.<sup>155</sup>

Accusing the United States of politicizing and weaponizing the fentanyl crisis, Beijing insists that it has adopted some of the strongest anti-illicit controls in the world and that its attitude toward drug use and trafficking is one of "zero tolerance."<sup>156</sup> Maintaining there is no fentanyl abuse problem in China, it portrays its fentanyl controls since 2018 as a "humanitarian act of good will" toward the United States.<sup>157</sup> It also insists that it is the United States that is undermining counternarcotics diplomacy and cooperation.

## IV. CHINA-LINKED DRUG TRAFFICKING IN SOUTHEAST ASIA AND THE PACIFIC AND CHINA'S REGIONAL ANTI-DRUG COOPERATION

This section explores the presence of China-linked drug trafficking in Southeast Asia and the Pacific and the counternarcotics and law enforcement posture and policies that China has adopted in the region. Focused on trafficking of methamphetamine, the synthetic drug that dominates drug consumption in the region, it provides a picture of Chinese drug trafficking networks, highlighting their key characteristics, such as their resilience, political capital, and capacity to move operations abroad, and a snapshot of drug trafficking in the region since the onset of COVID-19. It then details China's counternarcotics posture in Southeast Asia, exploring both China's multilateral counternarcotics diplomacy and China's on-the-ground law enforcement cooperation with countries in the region. China takes the regional counternarcotics diplomacy very seriously, but for a variety of reasons described below, its operational law enforcement cooperation tends to be highly selective, self-serving, limited, and subordinated to its geopolitical interests.

Nonetheless, it's been growing — both in Chinese government and CCP pronouncements and on the ground.

But the patterns of only very limited and self-serving cooperation also characterize China's anti-money laundering efforts in the region which, as the section below shows, are mostly geared to limiting capital flight from China and not all types of money-laundering, such as that linked to drug trafficking. Next the section details China's evolving posture toward the smuggling of methamphetamine precursors and precursors that originate in China and feed Southeast Asia's meth production.

After years of dismissing regional criticism about its role as a source of meth precursors, China has adopted more stringent regulatory and enforcement measures even toward unscheduled precursors and pre-precursors, particularly as increasing meth consumption in China, now predominantly supplied from Myanmar, has been elevated in China's domestic anti-drug priorities. Nonetheless, China's actions toward greater control of meth precursors have not produced any reduction in precursor and precursor availability sufficient to reduce the burgeoning meth production in the region, even though traffickers have been forced to move toward unscheduled precursors as the base for meth production. Finally, this section explores all of these issues, including the role of Chinese criminal groups and China's law enforcement responses, in the case of Myanmar where meth production exploded after China suppressed production in its own southern provinces a decade ago.

### ***Chinese illicit drug networks and organized crime groups in Southeast Asia and the Pacific***

There has long been a strong overlap between Chinese drug trafficking networks and criminal networks across Southeast Asia and the Pacific. The landscape of Chinese criminal groups in the region is very complex, and the extent and role of Chinese drug smuggling networks in the area exhibit considerable variation across countries and even within China.<sup>158</sup> Inevitably, therefore, the sketch below will have to be a highly simplified and selective outline of the situation there. The

region's borderlands with China, such as Myanmar's Shan and Kachin states and the 100-km zone of northern Laos adjacent to China, have become "essentially little Chinas, with vast presence of Chinese legal businesses and illegal enterprises and networks," as a former high-level international drug policy official put it.<sup>159</sup> Similarly, in Cambodia, where China has an extensive diplomatic and economic presence and which an international diplomat characterized as a de facto vassal state of China, the presence of Chinese drug and other organized crime smuggling networks is extensive. Yet in all of these countries, there is as deep an intermingling between Chinese and local proxy businesses operating in legal commodities and services as there are networks operating in contraband.<sup>160</sup> In Thailand, the role and presence of Chinese organized crime and smuggling groups is more nuanced, less dominant and entrenched, and often in competition with Thai organized crime groups. In all of these countries, tens of millions Chinese tourists had — until the COVID-19 shutdowns — been moving across the borders on chartered planes, some of them carrying contraband such as gems, illegal wildlife products, and drugs.<sup>161</sup>

The structure of Chinese drug trafficking groups also varies with the type of drug they smuggle. Many of the traffickers of fentanyl and precursors for synthetic opioids, including the Zheng cartel, are in fact, rather small family-based networks, hardly resembling the Mexican cartels which have thousands of operatives and armed soldiers. Chinese methamphetamine smuggling networks, while also not featuring thousands of hitmen and urban and rural warfare à la Mexico or Colombia, tend to be more organized. The triads or syndicates based in southern China play an important role among them.

Indeed, the suppression of drug production in China, such as meth production a decade ago, relocated production to neighboring countries, but did so while maintaining the role and dominance of the triads in the production abroad and trafficking across the region. I detail why and how China decided to act against its domestic drug methamphetamine production — a combination of cooperation and pressure from Australia and the growth of China's own internal meth consumption that the CCP became concerned about — in my previous report, "Fentanyl and geopolitics: Controlling opioid supply from China."<sup>162</sup> Briefly, Beijing was willing to mount intense and sustained law enforcement actions against entire communities in southern China involved in methamphetamine production and their local government sponsors, and China's organized crime groups absorbed the law enforcement pressure without any significant political, let alone violent, pushback. The effectiveness of production suppression was high: before the law enforcement action, China-produced meth supplied the domestic market as well as meeting large and lucrative demand in Australia and other East Asian and Pacific markets. After China's enforcement actions, most of the production moved abroad, and China stopped being the source of finished methamphetamines for export. China's domestic consumption is now supplied from abroad, with Chinese drug officials saying some 85% of meth seized in China comes from Myanmar.<sup>163</sup>

It is, however, also significant to note that despite extensive arrests of low-level producers and mid-level traders, the Chinese criminal networks largely survived the law enforcement actions. Tapping into existing drug smuggling and drug production networks abroad, they merely transferred their operations into neighboring countries, particularly Myanmar. For example, even after Chinese law enforcement decimated meth production in his native Guangdong province, Tse Chi Lop, one of the world's

top traffickers, was able to maintain his smuggling empire across the Asia-Pacific region. Though no measure or systematic mapping of Chinese organized crime groups in Myanmar and Southeast Asia and the Pacific has been presented by international multilateral organizations, international law enforcement officials believe their presence to be extensive and their power in the drug markets there to be great.<sup>164</sup> Yet China has exerted a lot of diplomatic pressure to suppress and blunt the exposure of linkages to Chinese organized crime groups in official publications by governments in the region or international organizations.<sup>165</sup>

Tse Chi Lop's Sam Gor syndicate appears to be the dominant East Asian organized crime syndicate, smuggling drugs through East and Southeast Asia, Australia, and the Pacific, controlling 40-70% of the regional wholesale meth market, and earning revenues between \$8 billion to \$18 billion annually.<sup>166</sup>

Australia's methamphetamine market is now essentially supplied from Myanmar,<sup>167</sup> but the drug smuggling networks along the international smuggling routes from Myanmar borders into Australia have essentially not changed and are mostly still controlled by Chinese syndicates. Similarly, the production and smuggling of ketamine for global illegal markets has diversified beyond China into the Golden Triangle borderlands of Myanmar, Laos, and Thailand, but Chinese drug smuggling networks still play a dominant role in the international smuggling component.<sup>168</sup> As an international drug policy official put it, "drug production has shifted from China abroad, but the drug trafficking groups have stayed the same, they packed up and moved places. They are still Chinese, they haven't been disrupted adequately."<sup>169</sup> This pattern of Chinese criminal groups relocating business abroad without changing networks or practices is consistent with the behavior of Chinese legal businesses. For example, when China imposed significant bans on logging in China in the 1990s, Chinese logging companies merely relocated their often highly-environmentally destructive policies to Thailand, Indonesia, and eventually to the Congo and Amazon basins, with neither the companies nor their practices changing dramatically.<sup>170</sup> Even though they both consisted of Chinese nationals and had a strong presence in China, the Chinese government exhibited little interest in influencing the logging companies' behavior to be consistent with rule of law compliance abroad.



**As an international drug policy official put it, "drug production has shifted from China abroad, but the drug trafficking groups have stayed the same, they packed up and moved places. They are still Chinese, they haven't been disrupted adequately."**

In addition to their capacity to relocate operations abroad, it is noteworthy that the Chinese criminal networks are relatively nonviolent, especially in comparison with criminal groups in Mexico and Latin America more broadly.<sup>171</sup> Nor do they operate with the same visibility and brazenness as criminal groups in Mexico. Thus, the post-2012 Xi-initiated actions against a wide set of criminal enterprises in China, not just meth production, generated no significant retaliation from criminal groups either against law enforcement in China or against the CCP. Unlike in Mexico, Colombia, Brazil, or Central America's Northern Triangle, where criminal groups respond to arrests and raids by shooting up police stations and even high-level officials,<sup>172</sup> Chinese organized crime groups simply quietly absorbed the law enforcement action because power so preponderantly lies with Chinese government authorities.

Unlike in Mexico where effective incapacitation and prosecution of criminal groups is exceedingly rare, impunity rates for violent crimes remain over 90%,<sup>173</sup> and Mexican law enforcement authorities have little deterrence capacity, Chinese government authorities have high deterrence power.

Nor do even arrests of high-value targets in East Asia and of Chinese top criminal actors generate the same kind of violent turf wars among the triads and other Chinese smuggling networks as they do in Mexico and Latin America. For example, the January 2021 arrest of Tse Chi Lop in the Netherlands and two of his top deputies in Thailand in October 2020 and February 2021<sup>174</sup> did not produce visible violent turf wars among the southern Chinese triads in China or abroad. As an expert on Chinese organized crime put it, “squabbles among and within the triads mostly take place only at the margin... they don’t leave hundreds of people dead in the wake of their fights.”<sup>175</sup> It is not yet clear who has succeeded Tse Chi Lop as head of his Sam Gor syndicate or what other power shifts within the triads the arrests have produced.<sup>176</sup> But while the transitions are often not visible, the networks are strikingly resilient. The triads’ franchise-like network organization enhances the groups’ resilience and allows them to absorb considerable financial losses without bankrupting the groups. The ease of production and smuggling of synthetic drugs further enhance this resilience.

Many of the Chinese smuggling networks are connected in complex ways to legal Chinese businesses. Indeed, the growth of their power in the second half of the 20th century is deeply connected to the growth of China’s legal economy from the late 1970s onward. After their destruction during Mao Zedong’s era, the triads in southern China resurrected themselves on the coattails of the growth of China’s legal economy and businesses. But as an expert of Chinese organized crime groups put it, “it is really the synthetic drugs revolution that brought bags of money back to the triads and put a spring into their step.”<sup>177</sup>

The triads’ connections to China’s legal economy and enterprises remain significant and essential. Like many criminal groups around the world, the triads use legal businesses as fronts for their illegal operations and money-laundering, and they tap into their infrastructure and transportation networks. But they also provide a variety of services to Chinese legal business enterprises, including those connected to government officials and the CCP, such as in the promotion and facilitation of Chinese businesses abroad and the building up of networks of political influence abroad.

For example, in 2018 gangster Wan Kuok Koi, popularly known as “Broken Tooth,” established the Cambodian headquarters of the World Hongmen History and Cultural Association. The association is connected to the 14K Triad in Hong Kong and Macau.<sup>178</sup> The United States indicted Wan Kuok Koi under the Global Magnitsky Human Rights Accountability Act in December 2020 for corruption and racketeering. The 14K Triad is accused by the United States of drug and human trafficking, racketeering, illegal gambling, and other criminal activities.<sup>179</sup> Wan was simultaneously a top leader of the 14K Triad and a member of CCP’s Political Consultative Conference — a political advisory body and a central part of the CCP’s system of rule. Chaired by a member of the Politburo Standing Committee of the Chinese Communist Party, the body is composed of CCP delegates and its allied front organizations, eight legally-permitted political parties subservient to the CCP, and

nominally independent members.<sup>180</sup> The U.S. indictment stated that “[t]he 14K Triad is utilizing Broken Tooth’s World Hongmen History and Cultural Association as an effort to legitimize itself,” coopting elite figures in Malaysia and Cambodia and establishing a powerful business network throughout Southeast Asia.<sup>181</sup> The United States also highlighted the continuing “pattern of overseas Chinese actors trying to paper over illegal criminal activities by framing their actions in terms of... major initiatives of the CCP,” such as the Belt and Road Initiative (BRI).<sup>182</sup> Washington fears that the BRI’s physical and political infrastructure will also facilitate drug trafficking and other criminal activities by Chinese and other criminal groups.

The intermeshing and mergers between Chinese legal and illegal economic enterprises across the region significantly takes place in Special Economic Zones in Southeast Asia, such as the Golden Triangle Special Economic Zone (SEZ) in northern Laos near the border with Myanmar and Thailand. In 2007, China’s Kings Romans Group, led by Zhao Wei, was granted a 99-year lease over the SEZ.<sup>183</sup> Centering on the Kings Romans Casino, the enclave also features a private shooting range replete with AK-47 and M4 assault weapons, a Chinese temple, a zoo, and private airstrip. The casino group strictly controls access, sometimes denying it to regional law enforcement officials, while the SEZ borders are protected by the Lao People’s Army. The casino has become a gambling and tourism haven for some 200,000 Chinese tourists who circle through it to indulge in gambling banned in China and Laos, with some recruited as couriers of drugs and other contraband. Among the thousands of employees, perhaps 40% are Chinese, including most croupiers, while the rest come from Laos, Thailand, and Myanmar.<sup>184</sup> Visibility into the Kings Romans Casino and the SEZ’s operations is very limited, as is the case with many other SEZs in the region. But many interviewed U.S. and regional law enforcement officials and international drug policy experts believe that the presence of Chinese and regional organized crime groups in the many of the Mekong region’s at least 74 SEZs<sup>185</sup> is large and that the SEZs feature extensive illegal economies, such as drug, wildlife, and human trafficking.<sup>186</sup> Yet it does not appear that the Chinese government has exhibited interest in cooperating with authorities in those countries in sharing intelligence or acting against Chinese nationals in China implicated in likely criminality in the SEZs.<sup>187</sup>

### ***A post-COVID snapshot of drug trafficking in Southeast Asia and the Pacific***

The COVID-19 pandemic has not significantly disrupted drug or precursor and pre-precursor flows in Southeast Asia and the Pacific. In fact, the flow of synthetic drugs produced in the region and interdicted has steadily grown yearly since 2011, with almost every year since then a record-breaking year in terms of seizures.<sup>188</sup> Nor, as noted in the introduction, did the pandemic reduce U.S. overdose deaths; in fact, it likely exacerbated them.<sup>189</sup>

COVID-19 and the mitigation measures taken by governments have, however, to some extent changed trafficking routes and methods. The regional reduction in air traffic reduced the amount and frequency of drugs smuggled by air. However, sea routes and river routes, such as on the Mekong, were either not affected by the COVID-19 shutdowns or saw increases in trafficking.<sup>190</sup> Perhaps surprisingly, with the exception of some borders, such as between China and Myanmar, COVID-19 did not significantly disrupt trafficking by individual couriers overland, much of which



still takes place in Southeast Asia where entire villages are still employed in such smuggling.<sup>191</sup> However, a rerouting has taken place, with trafficking shifting from northwest Thailand along the border with Myanmar more to northeast Thailand along the border with Laos and flows increasing in places such as Vietnam and Laos, where six times more meth was seized in 2021 than in 2020.<sup>192</sup> Beyond persisting demand in Australia, consumption has significantly increased in various parts of the Mekong region, such as in Vietnam, Thailand, and Malaysia.<sup>193</sup>

The seized synthetic drugs are predominantly methamphetamine products — the high-value and potent crystal meth destined for countries as such Australia, New Zealand, and Japan, and low-value yaba pills, containing a mixture of low-grade meth and caffeine, consumed in the Mekong region. But even in those places, the use of crystal meth is expanding. However, despite the record-breaking seizures of finished meth products based on ephedrine, virtually no seizures of the ephedrine precursor are taking place. What that apparently means is that, like in Mexico, Southeast Asian drug chemists have learned to cook meth from unscheduled precursors and pre-precursors.<sup>194</sup> This development is very significant because once again it exposes the inherent structural challenges of controlling the supply of synthetic drugs, including synthetic opioids, and the limitations on attempting to schedule and interdict precursors as a mechanism to stop the illicit supply.

In contrast to the burgeoning crisis of meth use and meth supply, fentanyl or other synthetic opioid use or flows destined for Southeast Asia have not yet been detected. However, even the countries with the most sophisticated regional forensic capacities, such as Thailand, mostly do not test for fentanyl and synthetic opioids in their seizures, testing predominantly for meth and heroin only.<sup>195</sup>

### ***China's counternarcotics posture in Southeast Asia and the Pacific***

Given the significance of Chinese criminal groups and traders of synthetic precursors in drug smuggling across Southeast Asia and the Pacific, what kind of regional counternarcotics and law enforcement policies and posture has the government of China adopted? This section explores Beijing's approach at regional and international drug policy fora as well as in police-to-police cooperation across the region.

China plays a strong and active role in regional multilateral law enforcement and counternarcotics fora and devotes significant resources toward shaping them and securing preferred outcomes. China's regional counternarcotics and law enforcement posture is complex and selective. Far from equitable peer-to-peer law enforcement relations, China's bilateral police and counternarcotics cooperation tends to be selective, uneven, and geared toward a limited set of its own priorities: minimizing drug consumption in China; minimizing capital flight from China; and limiting a bad image of China as a source of criminality abroad. However, most of these objectives are mediated through and mostly secondary to China's geopolitical goals. Nonetheless, China's law enforcement collaboration and presence in Southeast Asia appears to be expanding. And China has used its involvement in the suppression of criminality in the region as a mechanism to expand its law enforcement and armed presence abroad.

The selectivity of China's regional law enforcement engagement is reinforced by the fact that in Asia (as well as in Africa, as discussed in my forthcoming report on China's role in wildlife trafficking in Africa) criminal groups serve a variety of uses for the CCP and the Chinese government. In addition to promoting Chinese legal business expansion abroad, Chinese criminal groups also serve as eyes on and enforcers against members of the Chinese diaspora who would criticize or otherwise attempt to cross Beijing.<sup>196</sup> High-profile investigations of Chinese drug traffickers linked to the CCP or high-level government officials thus do not visibly take place. For example, China apparently did not play a role in the arrests of Tse Chi Lop and his deputies, an international collaboration that centered on Thailand, the U.S., Australia, and the Netherlands.<sup>197</sup> However, while the Chinese government in its bilateral and multilateral diplomacy objects to and tries to prevent and minimize indictments of Chinese government officials on corruption and criminal charges, it also tends to distance itself from high-level criminals, such as Wan Kuok Koi, when they are indicted.<sup>198</sup> As a former diplomat put it, "the Chinese government does not like its officials or criminals to be too flamboyant and visible."<sup>199</sup>

With respect to drug trafficking, China's first objective is to minimize the flow of drugs into China for domestic consumption. As discussed above, China's second objective is to push illegal supply of scheduled drugs and precursors abroad, though China lacks an equal determination to counter Chinese smugglers and traders operating abroad, such as through cooperating with national authorities abroad, let alone developing its own indictment portfolios. A far higher Chinese law enforcement priority is to counter capital flight from China, such as that linked to gambling, but the crucial priority does not translate into a broad interest to counter money-laundering utilizing the Chinese banking and trading systems even when linked to drug or other contraband smuggling.<sup>200</sup> Nonetheless, since the publication of an unfavorable assessment of China's anti-money laundering measures by the global Financial Action Task Force in 2019, the government of China strengthened a variety of its anti-money laundering measures and achieved better assessment ratings in 2021.<sup>201</sup> Still, China's willingness to cooperate internationally in anti-money laundering operations, let alone allow visibility into its financial and banking systems, remains limited. Finally, China is also concerned about its "going out problem," as a regional China expert put it, i.e., being worried about a bad reputation of Chinese nationals abroad, such as through their highly visible involvement in crime, even if it is petty crime, rather than high-value organized crime. When in Cambodia, for example, the involvement of Chinese construction workers in petty crime became highly visible, China's Ministry of Public Security dispatched its officers to suppress the criminality and arrest some culprits.<sup>202</sup> This display of extra-territoriality in China's law enforcement was, no doubt, facilitated by China's very close relations with Cambodia's government and strong influence in the country.

### ***China's regional counternarcotics diplomacy***

Despite the deterioration of China-Australia and China-U.S. counternarcotics cooperation, China maintains a very active role at regional Southeast Asia drug and law enforcement fora, such as at the Association of Southeast Asian Nations (ASEAN) and the affiliated organization for countering transnational crime, the Association of Southeast Asian National Police (ASEANAPOL), and at the global fora, such as the International Narcotics Control Board and the United Nations Office on Drugs and Crime (UNODC). At such fora, China has taken an active role

addressing the challenge of synthetic drugs and precursor chemicals, via actions like the so-called Mekong Framework or at UNODC in Vienna regarding new psychotropic substances. Several recent regional fora with a strong and productive Chinese role included, for example, a 2019 technical law enforcement conference and a 2020 meeting on precursor intelligence sharing that took place in Myanmar and was attended by representatives from other ASEAN countries plus the U.S. and China.<sup>203</sup>

However, the multilateral exchanges have only sometimes translated into actual on-the-ground bilateral China cooperation. As a former regional drug policy diplomat put it:

“Despite China’s consistently strong words, when it actually comes to cracking down on Chinese smuggling networks in the region, I came never to expect any significant Chinese law enforcement action in the region [Southeast Asia]. China likes to talk tough and schedule a lot [i.e., place substances on controlled lists], but does not enforce much, abroad especially.”<sup>204</sup>

At international drug fora, China takes its engagement very seriously and makes concerted and determined efforts to either dispose of or address tabled issues the way it prefers.<sup>205</sup> China’s diplomacy is very well coordinated and scripted, with top officials often attending regional drug and law enforcement meetings and sometimes, in contrast to their counterparts, arriving very well briefed and with a clear agenda.<sup>206</sup> Trying to silence any criticism of China, Chinese diplomats purposefully seek to develop a strong influence over such fora. According to international diplomats, China still prefers to engage on counternarcotics issues multilaterally, considering bilateral engagement more difficult and less safe. The preference for multilateral engagement may also be driven by the relatively small team within China’s NNCC, with the international crime and narcotics agenda in Southeast Asia and the Pacific always tackled by the Ministry of Public Security and not the Ministry of Foreign Affairs.

### ***China’s regional law enforcement collaboration***

China’s policing remains overwhelmingly internally focused. Nonetheless, recent rhetoric of top Chinese officials and bodies has highlighted international law enforcement cooperation. The State Council’s 2021 Legislative Work Plan spoke of advancing “the interaction between domestic rule of law and foreign-related rule of law,” a key element of Xi Jinping Thought on the Rule of Law, and argued that “efforts shall be made to adhere to actively advancing legislation in important fields such as... public health... and foreign-related rule of law.”<sup>207</sup>

China’s operational and criminal intelligence capacity outside of China’s borders also remains limited and should not be overestimated.<sup>208</sup> Still, over the past several years, China has enlarged the presence of its law enforcement officials abroad and increased its regional law enforcement activities and expanded the training China delivers to law enforcement police officials in Southeast Asia.<sup>209</sup> Moreover, China has expanded both the geographic scope and purpose of its enforcement cooperation with other groups. It increasingly sees law enforcement cooperation as a key mechanism to pull other countries into its orbit and expand its influence.

For example, China dispatched law enforcement assistance to Solomon Islands after unrest there in December 2021,<sup>210</sup> offered to dispatch assistance to Kazakhstan during its January 2022 unrest,<sup>211</sup> and has been providing law enforcement training and advice to Venezuela to prop up Nicolás Maduro's authoritarian regime<sup>212</sup> — with little regard for civil liberties.

Thus, despite its preference for multilateral engagement, since 1993 China has signed many bilateral memoranda of understanding with Southeast Asian and Pacific countries regarding law enforcement and counternarcotics cooperation. However, the bilateral engagement has rarely produced meaningful intelligence sharing with regional countries or led to many actual joint operations, with the most significant being the aforementioned Task Force Blaze. As an international diplomat put it:

“China always officially maintains that we need more cooperation among neighbors. But China also needs to provide such cooperation and particularly intelligence, and both are lacking. And since the January 2020 COVID-19 outbreak, China shares even less, it's been pushed into a very defensive crouch on a whole variety of law enforcement issues.”<sup>213</sup>

The level of bilateral cooperation and information sharing varies significantly with different countries. With Thailand, for example, China appears to share minimal actionable law enforcement intelligence; in Cambodia, China embeds an increasing number of law enforcement officials who conduct on the ground operations.<sup>214</sup> In places like Cambodia and beyond, China also attempts to sell extensively its law enforcement surveillance platforms.<sup>215</sup> However, despite the close relations with Cambodia, even there China runs into wariness, suspicion, and fear of growing dependence on Beijing and its backdoor access — concerns even far more pronounced in other Southeast Asian countries. Moreover, countries like Cambodia and Vietnam have their own extensive preexisting surveillance and repressive law enforcement apparatuses. An international diplomat in the region noted that “China's law enforcement cooperation in Southeast Asia lacks charm and sexiness, unlike that of the U.S. It just does not have the FBI/ DEA glamour.”<sup>216</sup>

Nor does China have anywhere near the level of U.S. law enforcement officials posted in most of Southeast Asia and the Pacific. While in Thailand, for example, the United States fields tens of officials from the DEA, Federal Bureau of Investigation (FBI), and the Department of Homeland Security (DHS), surpassing the number of all of the regional law enforcement liaison officials combined. China posts only a very small law enforcement liaison contingent.<sup>217</sup> Nonetheless, among the Chinese liaison officials posted abroad there frequently are fairly senior former members of the People's Liberation Army (PLA) or intelligence officials with at least high-level MPS experience. Such senior-position backgrounds also characterize Chinese business representatives abroad dealing with regional governments.<sup>218</sup>

Bilateral political and geostrategic relations tend to dominate China's bilateral law enforcement engagement, but China has on some occasions pointed to emerging criminal threats to extend its armed presence in Southeast Asia. The most significant of such maneuvers emerged as a result of drug trafficking incident in Laos's Golden Triangle Special Economic Zone, close to the Kings Romans Casino, a decade ago. In October 2011, two barges manned by 13 Chinese nationals and laden with meth

hidden along with legal cargo were shot up on the Mekong in an area rife with piracy and contraband smuggling.<sup>219</sup> Most of the crew was blindfolded, gagged, handcuffed, and shot in the back of the head. Beijing demanded a strong response because at that time, the attack was the deadliest assault on Chinese nationals abroad in several decades and sparked an uproar in China.

A notorious Mekong pirate, Naw Kham (an ethnic Shan from Myanmar, a former lieutenant in the Mong Tai Army ethnic militia and an associate of the notorious drug king of the Golden Triangle Khun Sa) was eventually arrested in Myanmar after the Chinese government put significant pressure on the Myanmar junta to nab him and extradite him to China, where he was executed.<sup>220</sup> For years, Naw Kham had terrorized the intense and growing cargo traffic on the Mekong with his armed piracy and taxed much of the legal and illegal trafficking along the Mekong in the Golden Triangle. Unlike Khun Sa, who stuck to opium and heroin and was satisfied with organizing cultivation and trafficking mostly within Myanmar, Naw Khan became a key pioneer in expanding meth trafficking throughout Southeast Asia, placing himself in competition with the Chinese syndicates. He killed Chinese sailors likely knew of their meth cargo and may have been drug smugglers themselves. Moreover, Naw Khan had also attacked and kidnapped ships and men working for the Chinese-controlled Kings Romans Casino, and Zhao Wei had to pay ransom for them.<sup>221</sup>

Naw Kham's extradition, trial and execution took place despite the fact within days of the murders major inconsistencies emerged, including the implication of Naw Kham's involvement in the murders of nine members of Thailand's elite counternarcotics Pha Muang Taskforce.<sup>222</sup> But Naw Khan put himself in direct competition with the triads and with Chinese legal businesses, fueling resentments against Chinese businesses in the Golden Triangle and capitalizing on them in his illicit ventures.<sup>223</sup> By executing him, the Chinese government would both satisfy the public outcry at the murder of Chinese nationals and get rid of a thorn in the side of Chinese business influence in the Golden Triangle.

Moreover, China also used the incident to demand that Laos, Thailand, and Myanmar accept the presence of Chinese armed patrol boats on the Mekong to conduct joint patrols with the three countries. For the first time then, China extended its armed law enforcement territorial reach beyond its borders. China also created joint patrol efforts with Thailand, Laos, and Myanmar. For the joint patrols, China got the United Nations to pay for the boats and fuel (which is often lacking) and muscled Laos, Thailand, and Myanmar to contribute the sailors to operate under Chinese officer command, while the governments of the Mekong countries privately complained that the "jointness consisted of Big Brother telling us what to do" and thus in retaliation sending "police idiots" from their forces to man the boats.<sup>224</sup> The jointness of the patrol effort was assessed by several former international law enforcement officials in the area as "a bit of a window dressing exercise," with China creating "the illusion of regional law enforcement consensus," while really using the patrols as "a cover for China's beachhead into the Mekong," "permitting China to do hot pursuit across borders."<sup>225</sup>

By 2016, the joint patrol boats did manage to significantly cut down on piracy on the Mekong, but meth and heroin continue to flow on the river with ever-growing volumes hidden among tens of thousands of containers of legal cargo, and with

various parts of the river controlled by criminal groups, ethnic militias, corrupt police forces, and private security companies guarding the special economic zones and other businesses.

### ***China's regional anti-money laundering efforts***

China's anti-money laundering (AML) effort is a law enforcement domain that well captures the self-serving selectivity and prioritization of China's law enforcement approach.

In 2019 and 2020, the U.S. Department of Treasury and Europol characterized Chinese money launderers as "key threats."<sup>226</sup> In May 2019, the global Financial Action Task Force gave China weak marks for compliance with global AML standards.<sup>227</sup> The role of Chinese money launderers appears to be growing and has extended beyond Asia to Mexico (described below), Colombia, and Central America.<sup>228</sup> Utilizing both trade-based laundering and cryptocurrencies such as Monero, Bitcoin, and Ethereum, Chinese launderers also move money in and out of the Chinese financial and banking systems, despite their strict controls on capital outflows. Preventing such outflows, in which Chinese organized crime groups play an important role, has long been a top priority focus of the Chinese government and law enforcement.<sup>229</sup>

The Chinese government intensely focuses on money laundering within China, prosecuting some 600,000 cases in the period from 2013 to 2017, a rate on per capita basis higher than in the United States.<sup>230</sup> In the past two years, China further intensified its law enforcement measures against money laundering, including abroad.<sup>231</sup> But the predominant focus is on recovering diversion of funds and recovering assets from corruption.

Indeed, in its AML efforts abroad, far from casting a wide net against money laundering dedicated also strongly to countering *drug* money laundering, the predominant focus of China's law enforcement remains more narrowly on stopping Chinese capital flight, including through online gambling both in China's mainland, Hong Kong, and Macau, and in Southeast Asia and the Pacific. Indeed, the majority of Chinese law enforcement liaison officials in Southeast Asia are dedicated to that issue.<sup>232</sup> Between 2014



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and 2016, capital flight assets repatriated by China amounted to \$8.64 billion, whereas drug-trafficking-related forfeitures amounted only to \$450 million.<sup>233</sup> It is, of course, possible that proceeds of corruption, non-drug-related crimes, and capital flight of legally-generated revenues in China exceeds significantly drug revenues there. Indeed, China self-reports in its 2019 Mutual Evaluation Report with the global Financial Action Task Force (FATF) the total size of drug revenues in China only as \$20 billion annually, which, as Appendix I of the final report of the Commission on Combatting Synthetic Opioid Trafficking notes, is a very small figure for a country of 1.35 billion people with a GDP of \$15 trillion.<sup>234</sup> In contrast, the estimated size of U.S. drug markets is about \$100 billion for a population of 330 million and a GDP of \$21 trillion.<sup>235</sup>

Much to U.S. frustration, broader counternarcotics-linked AML have not been a substantial part of the China's AML thrust in its international law enforcement cooperation, perhaps because of the sensitivities linked to the amount of illicit money in Chinese businesses and financial systems. The 2018 U.S. Department of State International Narcotics Control Strategy Report (INCSR) noted that:

“While China has taken steps to improve its AML regime, there are significant shortcomings in implementing laws and regulations effectively and transparently, especially in the context of international cooperation. China should cooperate with international law enforcement in investigations regarding indigenous Chinese underground financial systems, virtual currencies, shell companies, and trade-based value transfers that may be used for illicit funds transfers.”<sup>236</sup>

Even at the height of China's collaboration with Australia in Task Force Blaze, when Australian law enforcement was “very keen to push a joint counternarcotics AML agenda, the Australian Federal Police was not getting much traction.”<sup>237</sup> To the extent that China collaborates in such AML efforts with multilateral law enforcement institutions, it avoids working with any of the “Five Eyes” intelligence-sharing countries (the United States, the United Kingdom, Canada, Australia, and New Zealand) if such operations involve the banking systems in China or Hong Kong.<sup>238</sup> China is also not part of the Egmont Group of Financial Intelligence Units, an international organization that facilitates cooperation and intelligence sharing between national financial intelligence units to investigate and prevent money laundering and terrorist financing.<sup>239</sup>

The selectivity of China's AML engagement, however, also needs to be understood within the overall limitations of China's AML capacities, which in terms of resources and procedures still is far behind Western AML laws and regulations in the financial and banking sectors. As a former law enforcement official put, “[f]rankly, just getting China up to Western AML standards on paper alone is a big lift.”<sup>240</sup> The 2019 FATF Mutual Evaluation Report in assessing compliance with the 40 FATF Standards (technical compliance) gave China a low score, but similarly scored several other Asian countries traditionally associated with drug trafficking, such as Thailand.

As the Commission on Combatting Synthetic Opioid Trafficking points out, like all supply control measures, AML efforts also come with inherent limitations. Seizing illicit proceeds or freezing suspect proceeds of foreign shell companies are unlikely to substantially reduce drug flows.<sup>241</sup> Appendix I of its final report elaborates why the characteristics of synthetic drugs make anti-money laundering efforts even less likely to reduce drug markets or drug flows.<sup>242</sup> Because total payments by traffickers to producers for fentanyl and precursors are small (when fentanyl was arriving from China directly to the United States, they were believed to be less than \$20 million!) — AML systems find it very hard to detect such small flows and their seizures have little consequence on the financial capabilities of criminal groups as well as producers for whom synthesizing a new batch of fentanyl is cheap and easy.<sup>243</sup> When fentanyl flows became routed through Mexico and Mexican cartels became the principal wholesale suppliers of fentanyl, the total revenue from exporting fentanyl to the United States grew substantially — likely to between \$700 million and \$1 billion (though still less than estimates of revenues from exporting heroin or cocaine, \$1.32 billion and \$4.29 billion, respectively), making money laundering more demanding for drug trafficking actors.<sup>244</sup>

However, AML makes operations of criminal groups more difficult. Importantly, AML can generate very valuable intelligence on the shape of the criminal networks, including its corrupt government patrons, and thus lead to impactful arrests of the operational as well as top layers of the networks. Thus, a key value of AML efforts is not that they dramatically reduce drug flows, but that they are an important tool in enabling network dismantling and thus reducing the power of organized crime groups and their political patrons. Generating such an intelligence picture, of course, compounds political sensitivities of AML cooperation. China's reluctance to engage in counternarcotics AML cooperation, thus, may reflect concerns about the exposure of problems in China's banking and financial systems and of the crime-politics networks in China.

### ***China and precursors in Southeast Asia and the Pacific***

Even after China suppressed its own methamphetamine production in the early 2010s, China remained the source of precursors and pre-precursors for meth produced and consumed in the region. As elaborated below, precursors from China have been flowing into Myanmar, the epicenter for meth production over the past decade, for years. China is also the dominant source country for precursors heading into Vietnam, and recent large seizures of precursors and pre-precursors originating in China have taken place in Laos, and precursors from China have long headed to Thailand too.<sup>245</sup> For years, China was highly defensive about its role in meth precursor smuggling and did not want to engage on the issue. But as an international diplomat commented in November 2021, China has become "increasingly aware that it's getting a lot of bad PR about precursors, and not just with respect to fentanyl and the United States, but also regionally."<sup>246</sup> Consequently, Chinese diplomats and law enforcement officials in the region have been told by the top-level Chinese authorities to increase their regional anti-crime efforts, and China has begun providing some information about its companies suspecting of selling precursors and pre-precursors to drug traffickers with some countries in Southeast Asia.<sup>247</sup>

Thus, China has developed a so-called ghost list of precursors that are legal in China, but are dual-use and are known to be utilized by drug traffickers in Southeast Asia to produce meth, to which tougher sale regulations can be applied in China. Such an approach is analogous to the International Special Surveillance List maintained by the International Narcotics Control Board.<sup>248</sup> It is a voluntary list of substances known to be used in illegal drug production. The list's voluntary nature avoids the lengthy review process for international drug scheduling, the demand that before drugs are scheduled, their harms must first be demonstrated, and the requirement of an unanimous vote in support of scheduling at the United Nations Commission on Narcotics Drugs. But the voluntary nature also means there are no obligatory actions associated with the list.

China's law enforcement officials have also developed some additional legal and monitoring mechanisms to scrutinize Chinese companies selling such precursors into the Golden Triangle areas of illicit synthetic drug production.<sup>249</sup>



# THE MYANMAR LESSONS

When China suppressed its methamphetamine production in the early 2010s, Myanmar became Asia's number one meth producer or strengthened its position in that role. While the United Nations Office on Drugs and Crime until the early 2010s reported the amount of meth seizures in Southeast Asia, with China leading in the amount of meth seized,<sup>250</sup> it did not make official judgements as to where production was largest. Myanmar was well positioned to augment its production, which had been increasing since the early 2000s when China and the U.S. muscled the military junta and the various ethnic insurgencies in their semi-autonomous areas to temporarily suppress opium poppy cultivation. Decades ago, Myanmar replaced China as one of the world's leading producers of poppy after China suppressed its vast poppy cultivation in the 1950s. The various ethnic insurgencies in Myanmar have had layers of links to their ethnic brethren in China and to Chinese businesses. Chinese legal and illegal economic enterprises, often with the blessing of Chinese regional government officials, have been thickly implicated in and sometimes dominated the many illegal or gray economies of Myanmar, from drug trafficking to gem smuggling, logging, and wildlife trafficking, and land expropriation. Myanmar's military, the Tatmadaw, pro-junta militias, and ethnic rebel armies have all also been thickly intermeshed in and running these various illegal economies — sometimes, like in the case of poppy cultivation, employing hundreds of thousands.<sup>251</sup>

A wide variety of Chinese organized and “disorganized” criminal groups have established a large presence in Myanmar, especially at its borders with China, such as in Shan state and its special regions run by ethnic militias and in Kachin state, and have played crucial roles in the wide panoply of illicit economies, including drugs. The Chinese criminal groups have included triads such as the Sam Gor syndicate, dominating heroin and meth trafficking, and “mom-and-pop” ventures involved in people smuggling or wildlife trafficking. Crucially, while various Myanmar ethnic armed groups and pro-government militias have controlled production, Chinese syndicates have dominated smuggling across the region beyond the borders of Myanmar.<sup>252</sup>

In the last several years, the Myanmar drug market has grown very sophisticated and diversified, producing both high-value crystal meth for affluent Asia and Pacific markets, liquid meth, and low-level *yaba* for the Mekong region. It has capitalized on employing top-quality chemists from Taiwan and China. And it has

been robustly supplied by precursor chemicals from China, the vast majority of which still originates in the Chinese chemical and pharmaceutical industries.<sup>253</sup>

As with Chinese precursor meth flows to other Southeast Asian countries, China for years took offense at being criticized for being the source of meth precursor agents for Myanmar. It either dismissed the claims of the flows or claimed that the precursor chemicals were legal in China and hence China could not act against their flows.<sup>254</sup> Nor was China willing to exert the same level of pressure on Shan ethnic insurgency actors over whom it holds a lot of influence, such as the United Wa State Army, to suppress meth production as it was willing regarding poppy.<sup>255</sup>

It was only when meth production started visibly growing in China that China took on a more active role regarding Myanmar meth, like it had previously taken regarding heroin from Myanmar. China then expanded its law enforcement collaboration with law enforcement actors in Myanmar, providing information to Myanmar officials to crack down on meth smuggling into China.<sup>256</sup> It also demanded more action from ethnic armed groups and their political leadership, such as the Wa and the Kokang. At these presumed directives from China, the leadership of the ethnic armed organizations did carry out several massive seizures and pulled down social media advertisements for meth.<sup>257</sup>

At the same time, while China was encouraging intensified seizures, arrests focused only on lower-level producers and traffickers, with the more sophisticated and higher echelons of the trafficking networks being left intact. Former international law enforcement officials indicated that Myanmar law enforcement agencies may have been scared to identify and disrupt the top-level networks, perhaps facing pressure from China or at minimum not wanting to risk antagonizing China through such exposures and arrests.<sup>258</sup>

China also took action against ephedrine smuggling from Yunnan province into Myanmar. Deploying scores of officials from the MPS into Yunnan, it apparently shut down hundreds of ephedrine factories there,<sup>259</sup> though the visibility and data regarding those enforcement operations is scant. Nonetheless, the operation demonstrated that when China does want to undertake large-scale monitoring of production facilities and interdiction raids it can do

so by utilizing MPS personnel. However, while large seizures of scheduled precursor drugs took place inside Myanmar at least until the February 2021 coup, no such seizures, at least not visible ones, have taken place on the China side of the China-Myanmar border, which could mean that China has not actually mounted any interdiction raids despite the existence of the aforementioned Chinese precursor ghost list.

The effects of ephedrine and pseudoephedrine trafficking from China (and India where Myanmar meth producers also used to robustly source meth precursors) appear to be the wholesale switch to unregulated pre-precursors as the chemical base for producing meth.<sup>260</sup> Robust data to support this as an actual trend is systematically lacking across Southeast Asia and the Pacific.<sup>261</sup> Like with fentanyl pre-precursors, the regulatory and enforcement challenges have grown manifold.

Since 2020, China has, however, undertaken a very significant law enforcement action at the border with Myanmar, for an unrelated reason — COVID-19. As part of its zero-COVID strategy, China shut down its border with Myanmar, moving thousands of enforcement officers to the border in Yunnan. It also recalled Chinese citizens from Myanmar, giving them a deadline for returning on threat of losing Chinese citizenship.<sup>262</sup>

Yet even this intense Chinese border enforcement action — coupled with the coup in Myanmar and the subsequent emergence of an urban anti-junta insurgency and intensification of ethnic armed conflict in the country — has not disrupted the flows of methamphetamine from Myanmar.<sup>263</sup> As of the writing of this report in early January 2022, countries neighboring Myanmar have continued claiming increased amounts of meth seizures from Myanmar, with its potency undiminished and prices reduced across Southeast Asia, suggesting no disruption of supply flows.<sup>264</sup> In Shan, where many meth labs have been located for years and where the coup further weakened the already limited presence of the junta, prices for meth have remained stable and meth remains widely available.<sup>265</sup> In contrast, even before the coup, in December 2020 opium and heroin prices there spiked as demand increased.<sup>266</sup>

This suggests that Myanmar meth producers have so far not been lacking precursors and pre-precursors most likely sourced from China and this may mean that precursors are still flowing across the border with China despite the COVID-19 border crackdowns. Or Myanmar producers may have built up large precursor stockpiles. Will they run out if China keeps the border closed and effectively enforces the shutdown? And will they thus be forced to go back to sourcing precursors and pre-precursors in India? Even before the actual coup, as rumors of its likelihood swirled in Myanmar, some Myanmar ethnic armed groups apparently in preparation began moving drugs, precursors, and logistical chains into Thailand.<sup>267</sup>

Indeed, some have interpreted the large 2021 seizures in Myanmar to suggest that Myanmar's production of meth since the coup has increased.<sup>268</sup> Dedicating all of its enforcement resources to suppressing the ethnic and urban insurgencies, the Myanmar junta is believed to have reduced or stopped its anti-meth

operations. In 2019 and 2020, the junta sometimes mounted meth raids against pro-government militias when they crossed the Tatmadaw's preferences. This includes by selling weapons to the Arakan Army against which the Tatmadaw has fought intensely, or by becoming too powerful and potentially able to achieve consolidated regional control the junta did not want to see.<sup>269</sup> The

militias are now once again an important element of the junta's repressive apparatus amidst the general breakdown of order, internal security, governance, and the economy. Given the intensified armed ethnic conflict in Myanmar, the collapse of the country's legal economy, and the migration of many residents to rural areas, it is certainly plausible to speculate that poppy cultivation and meth production could increase.

China's border closure with Myanmar devastated Myanmar's agricultural exports. Legal cash crops rotted in the fields.<sup>270</sup> Poppy is likely to provide economic lifeline to many farmers, especially amidst heightened demand, because it requires many fewer production inputs and can be dried as non-perishable opium bricks. At minimum, despite being awash in arms and money for years, ethnic armed groups will be even more reliant on their income from various illegal economies, like drugs, just as the junta will be.

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But others question this interpretation, arguing that larger seizures do not ipso facto mean higher production and greater trafficking.<sup>271</sup> They point out that no large, verifiable measure of methamphetamine production in Myanmar, independent of seizures, was ever established. They also argue that the level of production in Myanmar might well have been underestimated for more than a decade and that year after year since 2011 seizures of Myanmar meth have been growing. They also suggest that amidst the current fad to identify the junta's financial flows and ability to survive international sanctions, all kinds of exaggerated estimates are being put out about other economies in Myanmar, such as the gem trade. They point out that the Tatmadaw's role in these economies — from meth to timber to gems — was always massive, even during the democratic period of 2016-2021, and that the overthrown Aung Sang Suu Kyi government exhibited little-to-no interest in engaging in international and internal law enforcement conversations about suppressing meth production in and trafficking from Myanmar.<sup>272</sup>

Visibility into on-the-ground developments in Myanmar have significantly diminished since the coup since the junta stopped temporarily reporting on its counternarcotics activities, agencies such as the DEA and UNODC withdrew their staff from Myanmar, and many Myanmar and international experts had to leave the country. Experts still there are constrained in their mobility and means of communication.

Similarly, some have alleged that since the coup, the presence of Chinese organized crime groups in Myanmar has grown.<sup>273</sup> International law enforcement officials and experts on Myanmar emphasize, however, that Chinese investments into Myanmar's legal and illegal economies, including land, real estate, and banking sectors, have been massive for decades, and the presence of Chinese criminal groups extensive.<sup>274</sup> They doubt that the February 2021 coup represents any kind of inflection point in the involvement of Chinese criminal actors in Myanmar. Nor do they see evidence of intensified Chinese involvement in Myanmar's legal economy — if anything, seeing Chinese legal businesses acting with increased caution about Myanmar markets.<sup>275</sup> Which is not to say that the massive decline of the Myanmar economy since the coup did not enable some Chinese organized crime groups to acquire new assets; but the evidence, compounded by the lack of any kind of baseline measure of the presence of Chinese criminal groups in Myanmar before the coup, is simply lacking to make claims about scale and difference one way or another.

Instead, some suggest that even Chinese criminal syndicates are experiencing uncertainty since the coup, as the intensified and complicated violent conflict sometimes shook up the security systems provided by ethnic armed actors for the labs from which their meth came.<sup>276</sup>

## **Takeaways**

The takeaway lessons from China's counternarcotics engagement with Myanmar and Southeast Asia regarding methamphetamines and their precursors is that many of the same issues that confound U.S.-China fentanyl engagement also plague the Southeast Asian meth efforts. China is often keen to push the visible problem — illicit drug production — outside of China, but for political, legal, and resource reasons its counternarcotics efforts become far more limited once the problem is outside of China's borders. In response to criticism, China emphasizes the production of meth too has evolved toward nonscheduled precursors, thus limiting China's legal capacity to suppress the flows. Nonetheless, China is not immune to international dissatisfaction with its role in precursor smuggling, and has intensified its actions, including developing more stringent controls on nonscheduled meth precursors. So far, however, those efforts have not dried up the flow of meth precursors from China, and large, and perhaps increasing, meth production continues in Southeast Asia, particularly Myanmar.

Beyond intense regional counternarcotics diplomacy, China engages in its strongest international law enforcement cooperation when its own, rather narrow law enforcement priorities are at stake — specifically, growing drug misuse within China, and China's efforts to capture and punish Chinese nationals challenging the interests of the Chinese government and CCP, such as by perpetrating capital flight from China.

Many of the dominant drug smuggling criminal networks in the Southeast Asia-Pacific region are Chinese. Often cultivating political capital with the Chinese government by also promoting the interests of Chinese legal businesses and sometimes serving as CCP tools to monitor and control the Chinese diaspora, Chinese criminal groups are far less violent, visible, and brazen than their Latin American counterparts. When it undertakes counternarcotics efforts abroad, China mostly focuses on seizures and suppression of flows, and far less on the disruption of criminal networks, particularly their top echelons, who may well have cultivated connections to the CCP and Chinese government officials.

## V. CHINA-LINKED DRUG TRAFFICKING IN MEXICO AND CHINA-MEXICO ANTI-DRUG COOPERATION

Mexican drug trafficking groups, especially the Sinaloa Cartel and CJNG, dominate the trafficking and wholesale distribution of fentanyl and methamphetamine into the United States. They have become the principal buyers of finished fentanyl from China and India as well as fentanyl precursors and pre-precursors from both countries. Increasingly, the precursor and pre-precursor trade is the method in which the illicit transactions between China and Mexico take place.<sup>277</sup> Virtually all meth precursors coming into Mexico today are dual-use and not scheduled substances, a development also increasingly mirrored with fentanyl precursors, severely complicating regulation and enforcement. Chemists working for the cartels then synthesize the precursors and pre-precursors into fentanyl and fake prescription drugs like Oxycontin and sell them online or through local distributors in the United States. Both cartels also sell fentanyl powder to smaller criminal groups in Mexico, allowing them to press the powder into fake prescription pills and sell them in the United States.<sup>278</sup> Since 2019, the flows of fentanyl across the U.S.-Mexico border have steadily increased in response to China's cracking down on direct mail shipments of fentanyl from China to the U.S. and its scheduling of fentanyl-class drugs and two fentanyl precursors.<sup>279</sup>



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Despite the preponderant role of Mexican drug trafficking groups in the U.S. drug market and the devastating opioid epidemic, U.S.-Mexico counternarcotics cooperation has deteriorated significantly since Andres Manuel López Obrador became Mexico's president in December 2018, with the Mexican president downgrading both U.S.-Mexico law enforcement cooperation and the Mexican government's internal focus on security. Despite a new U.S.-Mexico security and law enforcement cooperation framework — the U.S.-Mexico Bicentennial Framework for Security, Public Health, and Safe Communities<sup>280</sup> — replacing the earlier Merida Initiative under which unprecedented levels of U.S.-Mexico security cooperation were achieved between 2006 and 2012, the prospects are poor for a return to intense Mexican collaboration with U.S. security efforts.<sup>281</sup> It is not in the scope of this report to detail the U.S.-Mexican security relationship, about which I have written extensively elsewhere.<sup>282</sup>

Instead, this section focuses on the presence of Mexican drug trafficking groups in China and of Chinese criminal actors in Mexico and their role in Mexican drug trafficking. It also explores China-Mexico security collaboration in counternarcotics.

### ***Mexican criminal groups in China and the Asia-Pacific***

Along with the far smaller and now defunct Milenio Cartel, the Sinaloa Cartel was among the first Latin American groups to develop operational networks in China and Southeast Asia to source precursors for methamphetamines and eventually fentanyl and its precursors. Under the leadership of Joaquín “El Chapo” Guzmán Loera,

the Sinaloa Cartel also began to develop cocaine markets in East Asia, including China. With cocaine in Southeast Asia and the Pacific still far more expensive than other drugs, it remains a fairly small niche market among the most affluent. And even in that commodity, the Sinaloa Cartel's market share in China and Asia may still take second place to Nigerian traffickers' market share.<sup>283</sup>

In comparison with the Sinaloa Cartel, the much younger CJNG has been a late comer to drug trafficking in Southeast Asia and the Pacific. However, it too has moved beyond simply developing precursor sourcing networks in China and the region. Its aggressive expansionist policy now extends beyond Mexico and Latin America and the cartel also seeks to develop a far stronger presence in Asia, Australia, and New Zealand, supplying meth. Fully produced from legal pre-precursors, Mexican meth can be of higher potency than Asian meth.<sup>284</sup> Threatening the Asia-Pacific turf of the Chinese drug syndicates supplying meth in the Asia-Pacific region could in time put CJNG on a collision with the Chinese and East Asian trafficking networks, a war that could potentially *eventually* take place also in Mexico or limit CNJG's access to Chinese money launderers or precursor suppliers.

Even though Mexican drug trafficking groups dominate U.S. wholesale synthetic drug supply, and extensively source their precursors from China, their physical footprint in China is minimal, mostly consisting of a few individuals and business trips.<sup>285</sup> Their physical presence in India, their backup source country for precursors, appears equally limited. In the region, the Mexican groups, particularly the Sinaloa Cartel, have the most significant presence in Hong Kong where about a decade ago, they and the triads developed a highly sophisticated exchange of cocaine for synthetic drug precursors.<sup>286</sup> Far more frequently, Mexican and Chinese traffickers and brokers travel to Europe — particularly Italy, the Netherlands, and eastern Europe — to establish smuggling ventures.<sup>287</sup>

### ***Chinese criminal actors in Mexico***

In contrast, the presence of Chinese criminal actors, connections, and networks in Mexico is far bigger. Individuals in the Chinese diaspora in Mexico broker precursor and finished drug sourcing in China, as well as transfer value between the Mexican cartels and Chinese suppliers, and launder money. They are also involved in illegal trade in other commodities, such as wildlife and timber (described in a forthcoming companion report on China's role in wildlife trafficking in Mexico). Members of the Chinese diaspora in Vancouver and in the United States are also critical vectors in the trafficking of synthetic drugs and their precursors between North America and China and in money laundering.<sup>288</sup>

The presence of Chinese nationals in Mexico has grown significantly over the past decade and continues to expand. But the Chinese diaspora in Mexico, including in places such as Culiacán in the state of Sinaloa, the hub of the Sinaloa Cartel, dates back more than a century to the building of railroads in the United States with the use of Chinese labor and anti-Chinese race riots in the United States that drove some over the border into Mexico. The majority of the old and new diaspora members are, of course, not involved in illicit economies. But the diaspora community has become the go-to recruitment pool for both Chinese and Mexican criminal groups.

Sometimes, Chinese businesses in Mexico use their legal ventures, such as exporting jellyfish and other Mexican marine products to China, as a cover for also bringing fentanyl and meth precursors into Mexico.<sup>289</sup> Operating in Mexico, various mid-size companies with strong presence of Chinese nationals in their ownership and staff are also believed to have been implicated in fentanyl and meth precursor smuggling.<sup>290</sup> Other times, Chinese nationals involved in illicit value transfer and money laundering may perhaps not even be aware of their role in cartel operations. Nor are all of the diaspora members involved in drug trafficking and other illicit economies between China and Mexico necessarily members of Chinese criminal syndicates. Some are merely mom-and-pop operations and small family networks.<sup>291</sup>

China's involvement in resource extraction in Mexico and its export of consumer goods there, amounting in 2019 to some \$83 billion,<sup>292</sup> provides opportunities for the interactions of Mexican organized crime with Chinese business and illegal networks. These include lithium extraction in Durango and Sonora and iron ore exports from Michoacán in which Chinese trafficker networks are believed to have become involved along with Mexican organized crime groups, such as CJNG and previously Los Caballeros Templarios (Templarios) and La Familia Michoacana (LFM).

Fentanyl and its precursors as well as meth precursors from China principally enter Mexico through the ports of Lázaro Cárdenas in Michoacán and Manzanillo in Colima.<sup>293</sup> The Sinaloa Cartel and CJNG share access to both ports;<sup>294</sup> Chinese mafia cells are also believed to operate in Lázaro Cárdenas.<sup>295</sup> But while the presence of Chinese traffickers and cells in Michoacán is mostly concentrated on the coast where various Chinese legal businesses are also located, Chinese traffickers are also believed to have an operational base in the inland Michoacán municipality of Aguililla.<sup>296</sup> A transshipment hub for precursors heading into illicit labs in Michoacán, Aguililla is controlled by organized crime groups and is highly contested between CJNG and smaller local criminal groups, some of which wrap themselves in the label of self-defense groups. In addition to the Chinese iron ore connections, India's steel giant ArcelorMittal also has large investments in Michoacán iron mining, a business into which the Templarios and LFM were tightly intermeshed, allegedly extracting large extortion fees from production and transportation.<sup>297</sup>

Chinese legal businesses, as well as illicit networks, often seek to establish presence in nodal points of transportation, such as the large Gulf of Mexico ports of Veracruz in the state of the same name and Tampico in the state of Tamaulipas (the latter port partially owned by Chinese companies), and in the border city of Mexicali, capital of the Pacific coast state of Baja California. In Mexicali, Chinese mafia cells have been involved in legal and illegal fishing and as well as precursor smuggling.<sup>298</sup> Both sets of actors often invest strongly in courting local Mexican officials and developing political capital with them and with other local prominent politicians and businessmen.<sup>299</sup>

However, the high potency of synthetic opioids also means that the amount of precursor and pre-precursor chemicals necessary for their production is far smaller than the amount of precursors and pre-precursors for meth. Instead of large kegs of liquid, small packages of powder are the necessary base. Thus, synthetic opioid production greatly simplifies smuggling and makes trafficking via air traffic far

more possible from a weight perspective, diversifying trafficking routes, even as hiding small packages within large shipping containers of legal cargo continues to pose its own huge detection problems.

In addition to receiving precursors from China, Mexican criminal groups have been delivering services for Chinese illicit networks, such as receiving Chinese undocumented people from Chinese ships in Baja California and Baja California Sur and smuggling them via the cartels' fast boats into California.<sup>300</sup>

### ***Money laundering and value transfer***

Chinese actors have come to play an increasing role in laundering money for Mexican cartels and criminal groups across Latin America as well as in Europe by using Chinese businesses located in Mexico, the United States, and China, and Chinese informal money transfer systems.<sup>301</sup> These informal systems emerged to avoid banking fees and scrutiny and China's capital flight controls: China's laws allow Chinese citizens to move only \$50,000 from China abroad per year.

Drug trafficking groups, including in Latin America, are in turn flush with vast sums of hard cash, such as euros and dollars, sought after in China. The National Drug Intelligence Center of the U.S. Department of Justice estimated in 2008 that Mexican and Colombian drug trafficking groups earned between \$18 billion and \$39 billion a year from wholesale drug sales.<sup>302</sup> In 2010, the U.S. Department of Homeland Security (DHS) estimated bulk cash smuggling to Mexico at between \$19 billion and \$29 billion annually.<sup>303</sup> Other estimates from the UNODC, research organizations, and news media have assessed Mexico's drug export revenues in the range of \$6 billion to \$21 billion a year between 2010 and 2018.<sup>304</sup>

Although it is not clear what percentage of the cartels' illicit profits is laundered through Chinese money transfer networks, U.S. officials fear that the effectiveness of their money laundering is such that it is even displacing established Mexican and Colombian money launderers and putting the flows of cartel money even more out of reach of U.S. law enforcement.<sup>305</sup> Chinese operators heavily tax Chinese citizens eager to get money out of China, and are thus able to tax the drug cartels lightly and undercut other money launderers.<sup>306</sup> In some cases, a particular Chinese money laundering network managed to get itself hired by both the Sinaloa Cartel and the CJNG; in other cases, they worked exclusively with just one of them.<sup>307</sup>



**The Chinese brokers mostly manage to bypass the U.S. and Mexican formal banking systems, thus evading anti-money laundering measures and simplifying one of the biggest challenges for the cartels, namely moving large amount of bulk money subject to law enforcement detection.**

As described in detail in Drazen Jorgic's Reuters special report,<sup>308</sup> the Chinese brokers mostly manage to bypass the U.S. and Mexican formal banking systems, thus evading anti-money laundering measures and simplifying one of the biggest challenges for the cartels, namely moving large amount of bulk money subject to law enforcement detection. The only interface with the formal banking system takes place in China, into which U.S. law enforcement agencies have little-to-no visibility. Using encrypted platforms, burner phones, and codes,



cartel representatives hand over bulk cash to a Chinese contact. The contact brings the money to a U.S.-based Chinese business with a bank account in China, and via a phone app from that account transfers the yuan equivalent to another account in China, bypassing U.S. bank fees and scrutiny. Chinese money launderers would then perform similar “mirror transactions” to convert the money into pesos, utilizing Chinese businesses with Mexican bank accounts.

U.S. investigations and court cases revealed that the Bank of China was among the Chinese financial firms utilized by Chinese operators for laundering the money of Mexican cartels.<sup>309</sup> In the investigations of the role of Chinese money laundering networks for Mexican cartels, U.S. officials have often been frustrated with the lack of cooperation from Chinese officials. Chinese officials have, however, emphasized that China is ready and willing to “destroy drug cartels and drug-related money laundering networks” and cooperate with the U.S. on the “principle of respecting each other’s laws, equality, and mutual benefit,” adding that the U.S. AML requests focused on “legitimate enterprises and individuals” in China without the United States providing evidence of their criminal and drug involvement.<sup>310</sup>

Other money laundering and value transfers between Mexican and Chinese criminal networks include trade-based laundering, value transfer utilizing wildlife products, such as protected and unprotected marine products and timber, real estate, cryptocurrencies, casinos, and bulk cash — though it is not clear what percentage of laundering any of these methods account for.<sup>311</sup> An example of trade-based laundering includes Chinese launderers for CJNG buying shoes in China and reselling them in Mexico to give the cartel the necessary cash.<sup>312</sup> The casino laundering takes place in ways similar to the informal money transfers: Bulk cash is brought to a casino in Vancouver, for example, where the cartel-linked individual loses it while his money laundering associate in Macau wins and pays the Chinese precursor smuggling networks.<sup>313</sup>

The increasing payments for drug precursors in wildlife products coveted in China — for Traditional Chinese Medicine, aphrodisiacs, other forms of consumption, or as a tool of speculation, such as in the case of the highly prized swim bladder of the endemic and protected Mexican totoaba fish poached for Chinese markets — constitute yet other method of illicit value transfer.<sup>314</sup> Other wildlife commodities used for money laundering, tax evasion, and as barter payments between Mexican cartels and Chinese precursor networks include abalone, jellyfish, and lobster.<sup>315</sup> Instead of paying in cash, Chinese traffickers are paid in commodities. The amount of value generated by wildlife commodity payments, likely in the tens of millions of dollars, may not cover all of the precursor payment totals, though the latter likely also amount to tens of millions of dollars.<sup>316</sup> Wildlife barter may not displace other methods of money laundering and value transfer. But the increasing role of this method can devastate natural ecosystems and biodiversity in Mexico as the cartels seek to legally and illegally harvest more and more of a wider and wider range of animal and plant species to pay for drug precursors.

Such wildlife-precursor barter has not yet been identified in Southeast Asia and the Pacific,<sup>317</sup> but given the immense scale of poaching and wildlife trafficking there it is something to watch for.

## ***China-Mexico counternarcotics cooperation***

Law enforcement and counternarcotics cooperation has historically played a very small role in Mexico-China relations and security and anti-crime issues regarding drugs or wildlife never played a significant role in the relationship. The relationship has centered on economic cooperation, requiring complex diplomatic balancing. Although Mexico has tried to preserve a good relationship with China, it has often viewed China as an economic competitor and was the last country to accede to China's admittance to the World Trade Organization, agreeing to the accession only in September 2001.<sup>318</sup> The López Obrador administration speaks of China as a competitor and emphasizes the need for nearshoring and Latin American integration.<sup>319</sup> China's influence on Mexico is much less than on smaller Latin American countries. Nor does it rest solely, or even principally, on Mexico's exports of primary commodities, with Mexico also exporting value-added goods such as computers and cars to China.

In other ways, however, Mexico has sought to preserve a positive and easy relationship with China. The López Obrador administration, for example, does not criticize China for human rights issues, a position part and parcel of the president's emphasis on sovereignty and avoidance of criticizing foreign leaders.<sup>320</sup>

Until the last few years, to the extent that security and trafficking issues came up in the bilateral relationship, it was mostly because Mexican nationals were arrested on trafficking charges in China or their arrests at home revealed connections to China.<sup>321</sup>

The precursor smuggling and wildlife trafficking, particularly of totoaba bladder, increased Mexico-China diplomatic engagement on law enforcement issues. But the engagement remains "very slow, complicated, unwieldy, and far from robust."<sup>322</sup> Engagement on security and legal assistance matters has been sporadic and piecemeal, with both countries lacking a full picture of the issue at hand and a consolidated institutional engagement channel. In both countries, various agencies and departments have held back information, stalled, and bypassed other departments.<sup>323</sup> Mexico's attorney general's office has historically shared little information with the Mexican Ministry of Foreign Affairs, even about issues on which the attorney general's office approached the government of China — a bureaucratic disconnect that has only grown more intense during the López Obrador administration.<sup>324</sup> The existing legal frameworks in Mexico and China do not make cooperation easy, and language barriers between the two countries have also plagued and undermined law enforcement and legal cooperation.

Before China's recent undermining of Hong Kong's autonomy, the strongest Mexico-China law enforcement cooperation centered on Hong Kong's customs, such as regarding totoaba and other wildlife commodity smuggling.<sup>325</sup> But it's not clear whether those built channels will be able to survive Beijing's domination of Hong Kong since 2020.

At one point the López Obrador administration became interested in negotiating some collaboration with China regarding fentanyl precursors. However, the diplomatic engagement struggled to produce any concrete results. The Chinese government has resolutely rejected claims that fentanyl precursors are smuggled to Mexico from China.<sup>326</sup> When a big fentanyl and fentanyl precursor seizure took

place in Manzanillo in August 2019, the Chinese government became irritated that it only learned of the seizure through press reports, asking the Mexican government for samples and proof that the substances came from China.<sup>327</sup> Subsequently, China was allegedly about to appoint a fentanyl specialist to the Chinese Embassy in Mexico City,<sup>328</sup> but research for this report was unable to confirm whether the appointment, in fact, took place.

Overall, China mostly maintained the stance that fentanyl and precursor smuggling was the problem of Mexican customs and that Mexico had to address the corruption and inefficiencies of its custom authorities and that China could not act against precursors that were legal in China.<sup>329</sup>

The López Obrador administration has indeed sought to improve Mexican customs, but its overall focus has been on reducing custom evasion, rather than stopping the flows of drug precursors to Mexico.<sup>330</sup> Thus, the interest of the Mexican government lies in moving containers and collecting taxes from their shipments, rather than holding them up to conduct drug and other contraband inspection.

Nominally, the Mexican Navy (SEMAR) has been appointed to lead in the management of Mexican ports. In reality, the new bureaucratic structure remains very complicated. Being in charge of ports would in theory entail controlling the following functions: 1) administering the port authority which certifies fishing and shipping vessels; 2) managing the operation of the ports; and 3) running the customs agency, previously called the Tax Administration Service (SAT) but changed by the López Obrador administration into the National Customs Agency (ANAM); and 4) providing offshore security. In handing “port control to SEMAR,” the López Obrador administration, in fact, only appointed a retired SEMAR admiral to head ANAM, giving him three months of a training on an extremely complicated and obtuse customs code that Mexico customs experts have to study for some seven years.

Unlike the previous custom and tax agency SAT, SEMAR is more interested in detecting fentanyl, its precursors, and meth precursors and in monitoring and regulating companies importing dual-use chemicals into Mexico.<sup>331</sup> For those functions, SEMAR receives training from various U.S. agencies such as the Coast Guard and Customs and Border Protection. But container inspection necessitates reasonable suspicion, and thus intelligence from the United States (or potentially China, though it does not appear that China has provided any such information).<sup>332</sup> Moreover, only an ANAM agent, not SEMAR, has the authority to open containers, inspect them, and seize any contraband, such as precursors. Corruption remains high throughout the involved agencies, with best results achieved when joint inspections with multiple agencies involved take place, each watching the other for corrupt deals.<sup>333</sup> SEMAR mostly does not track precursors beyond Mexican ports, let alone mount controlled delivery operations to traffickers’ warehouses and smuggling hubs.<sup>334</sup> Further, the dismantling of the Federal Police by the López Obrador administration also produced a huge loss of investigative capacity in Mexico, perhaps as much as 70%. The remaining dearth of Mexican investigators means that essentially only *in flagrante* cases get prosecuted. And even then, poor chains of evidence handling have led to the collapse of cases against precursor smuggling (and other criminal prosecution efforts).<sup>335</sup>

Critically, since SEMAR personnel are now tied up in land anti-crime and counternarcotics operations, its on-sea capacity has declined dramatically. Even though SEMAR has several brand new ships, it has little crew or fuel for them, with many of its naval assets parked at length in Mexican ports.<sup>336</sup>

Mexican drug trafficking groups are taking advantage of the lack of SEMAR's permanent presence along the coast of Mexico. Up and down the coast of Guerrero, Oaxaca, Baja California, and Baja California Sur, they bring fast boats to offload precursors and cocaine (and deliver other contraband, such as marine species) onto large ships from China or Latin America. Local fishermen, not directly involved in the contraband smuggling, nonetheless sometimes deliver fuel to the traffickers' boats.<sup>337</sup> To the extent that SEMAR occasionally seizes the shipments, it is because of tipoffs from the United States or the Mexican Navy's occasional use of detection drones.<sup>338</sup>

In sum, there is little prospect that Mexico-China law enforcement cooperation would significantly alter precursor trafficking into Mexico and contraband smuggling to China even as transactions between Mexican and Chinese trafficking networks continue to grow and expand into a variety of illicit economies, enterprises, and commodities and feed the devastating U.S. opioid epidemic.

## VI. CONCLUSIONS AND RECOMMENDATIONS

Together with Mexico, China remains the principal source of the fentanyl used in the United States even as the raging U.S. opioid crisis continues unabated. China's scheduling of fentanyl-class drugs and their two immediate precursors reshaped trafficking routes and supply patterns, pushing illicit traders away from direct sales to the United States and toward nonscheduled precursors and pre-precursors. China also continues to play a key role in the trafficking of methamphetamine precursors into Mexico and across Southeast Asia and the Pacific, even as it has suppressed its own domestic production.

China's international cooperation in countering precursor chemical smuggling remains fraught and limited. The U.S. continues to be frustrated by China's limited willingness to act against Chinese smugglers and criminal syndicates, the latter of which often have complex relations with Chinese authorities often unofficially serving some of their interests at home and abroad.

China extended its most intense counternarcotics cooperation to the United States when it still believed that an improvement in U.S.-China relations was possible and when it saw counternarcotics cooperation as a mechanism to obtain it. As Beijing's perception of the likelihood of any improvement in relations has eroded, so too has its willingness to explore coordination on counternarcotics issues.

As with meth smuggling in Southeast Asia and the Pacific, China rejects international criticism for its role in precursor smuggling. Its law enforcement cooperation with Mexico to counter precursor flows remains minimal. While China's law enforcement presence in Southeast Asia and the Pacific regarding meth precursors and smuggling has grown, it remains self-interested, narrow, parochial, and selective, with its law enforcement priorities often substantially different from those of the U.S., Mexico, or Southeast Asian countries.

Even for countries with which China developed the most intense bilateral law-enforcement-to-law-enforcement cooperation — namely, Australia — the geopolitical climate determines and trumps counternarcotics collaboration.

China publicly claims to have delinked counternarcotics collaboration from the geopolitical environment; but in reality, it seeks to use expanded anti-fentanyl regulation as a mechanism to change U.S. behavior in other aspects of the bilateral relationship. Since Beijing believes it did not get sought-after changes in U.S. overall strategy toward China by catering to U.S. preferences regarding policies toward synthetic opioids and their precursors, and continues to face U.S. pressure and criticism in a variety of domains, it has pulled back from counternarcotics cooperation.



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Indeed, as long as China holds out little hope of improvement in U.S.-China relations, little progress in bilateral counternarcotics cooperation is likely to take place. The U.S. will have to invest more in working with other countries to synchronize efforts to push China to take specific actions it seeks in counternarcotics and law enforcement collaboration.

However, even irrespective of political will to combat them, illicit synthetic drugs pose massive structural challenges to the control of their supply. Even if a future China in a less confrontational relationship with the United States adopted more stringent regulatory and enforcement controls, synthetic drugs would likely continue to flow. The difficulty is not merely one of geographic displacement long experienced in global counternarcotics efforts, but is also one of precursor displacement and innovation. Scheduling one synthetic drug or precursor leads rapidly to the emergence of legal alternatives to feed the illicit drug trade.

Amidst these challenging bilateral and structural circumstances, what are the opportunities for U.S. policy intervention? The United States can encourage anti-fentanyl and precursor enforcement by China not only by working through the Chinese government, but also by engaging Chinese chemical and pharmaceutical companies and their managers. Nonetheless, the overall U.S.-China geopolitical relationship will dictate the extent of Chinese willingness to collaborate with the U.S. on counternarcotics measures. The greater the rivalry and tensions, the less cooperation China will deliver.

*With the Chinese government, Washington should emphasize Beijing's interests in China's reputation as a global counternarcotics policy leader and leverage multilateral fora such as the United Nations Office on Drugs and Crime and the International Narcotics Control Board. The United States should also continue to emphasize China's self-interest in preventing the emergence of a devastating synthetic opioid epidemic in the country as the prescription of opioids in China grows, even though Beijing has thus far been dismissive of these concerns. And Washington should continue requesting that China take down websites that sell synthetic opioids illegally to Americans or to Mexican criminal groups.*

*The United States should also strengthen its cooperation with allies and partners, such as Australia and Europe, to send coordinated messages to push Beijing in preferred directions of law enforcement efforts, including greater monitoring and enforcement against sales of precursors chemicals to criminal groups and more robust and broadly-cast anti-money laundering efforts. Such coordinated messages will raise reputation costs for China of its law enforcement inactions. There is reason to believe that such coordination among the U.S. and allies as well as regional partners in Asia-Pacific could result in greater Chinese willingness for and diligence in law enforcement collaboration. In other cases where China came to be faced with sustained criticism from countries it sought to cultivate, such as in Southeast Asian regarding meth precursors or globally regarding ivory trafficking, Beijing has over time altered its stance and adopted more cooperative and accommodating policies.*

*The United States could similarly explore with Mexico whether U.S.-Mexico coordination of messaging to China regarding precursors would be possible. U.S. counternarcotics cooperation with Mexico has tanked during the López Obrador*

administration and the U.S.-Mexico Bicentennial Framework is unlikely to resurrect it robustly. Nor does the current Mexican government exhibit any interest in meaningfully tackling Mexican criminal groups. However, it may still be willing to coordinate with the United States on messaging to China regarding precursor controls and intelligence sharing on flows of precursors to Mexico since such actions do not require intense confrontations with Mexican criminal groups. Once again, such joint coordinated messaging, especially if public, would raise the reputational costs to China of ignoring or denying meaningful cooperation.

*The United States should continue to engage China bilaterally and multilaterally to adopt more robust anti-money laundering standards* in its banking and financial systems and trading practices. Getting China to adopt such improved regulatory measures will itself take considerable time. Meanwhile, China may occasionally be incentivized by the U.S. to use AML measures against particular trafficking networks or chemical companies who are clearly selling precursors to drug traffickers, such as in Mexico. But beyond sporadic actions, there is little likelihood that China will rapidly alter its AML stance away from selective focus on Chinese capital flight and toward broader counternarcotics measures. Nor is there high likelihood that any time soon China would allow the U.S. or other countries greater visibility into its banking and financial systems, since it will continue to seek to hide the many problems of both. However, in time, U.S. and multilateral support for China's implementation of more robust AML could produce some positive counternarcotics outcomes. There is no evidence to suggest that even robust AML measures would end or significantly reduce the supply of fentanyl to the United States. However, AML cooperation could at least help dismantle smuggling networks and perhaps also deter some, thus making it more difficult for them to operate. At minimum, it would reduce their ability to operate with wide impunity and strengthen the enforcement of rule of law.

*With the Chinese government and Chinese pharmaceutical companies, the United States could encourage the spread of best practices developed in the pharmaceutical sector, such as by the BASF Corporation, a German chemical giant and the second largest supplier of chemicals in North America, which some U.S. government officials see as an exemplar for strict controls on diversion.*<sup>339</sup> Over time, Chinese pharmaceutical companies should be encouraged to adopt the full array of global control standards, including the development of better training, certification, and inspection.

Even so, the shift toward precursors and pre-precursors with widespread dual use poses massive structural obstacles to control. The United States is deeply engaged in a global discussion on how to develop enhanced special surveillance lists and monitoring and enforcement mechanisms for dual-use chemicals, as those that are not scheduled do not have to be declared in exports.

*With no global industry and countries' willingness to move toward scheduling many dual-use chemicals, the industry could adopt self-regulation systems to detect and police suspicious activities, by adopting know-your-customers policies, not selling precursors to likely drug traffickers and alerting law enforcement authorities about such buyers.*

But even in the banking sector, such post-September 11 know-your-customer, due-diligence policies, and reams of reports of suspicious activities, had limited impact while carrying problematic side-effects.<sup>340</sup> In comparison with banking, the global chemical industry is far larger and far more fragmented, containing hundreds of thousands of firms and millions of facilities, including not merely producers but many brokers. So achieving widespread and diligent adoption of self-regulation and incentivizing it through the punishment of violators is highly challenging. Moreover, in various parts of the world, including China and India, criminal groups have deeply infiltrated the chemical industry,<sup>341</sup> making it easy for them to falsify and subvert such self-regulation measures. They would need to be expunged from the industry first to make such measures more effective.

These types of public-private partnerships are not common in China and could pose difficulties both for the government and industries. China's operating practices have largely been that the government writes regulations and the industries implements them (and often seeks to subvert them). And to the extent that many of the unscrupulous sellers of nonscheduled precursors are medium and small firms with smaller legal global market access and thus fewer incentives for compliance, the monitoring and enforcement challenge remains large and resource-intensive.

Firms that violate agreed-upon standards should be put on probation and, if no significant improvement and compliance takes place, should be cut out of the U.S. market or indicted by the U.S. government. Washington can also encourage Beijing to shut down the worst offenders.

Of course, there is a risk that U.S. indictments or any new U.S. laws mandating that only chemical firms with certain standards can sell to the U.S. market may stimulate China to retaliate against U.S. businesses seeking access to China's market — whether by finding reasons for criminal investigations against U.S. companies or by organizing social media-led boycotts. China has resorted to both.<sup>342</sup> Moreover, many unscrupulous sellers are likely to sell their precursors or finished synthetic drugs to drug traffickers abroad, such as the Mexican groups, instead of directly into the United States.

*With respect to prominent Chinese pharmaceutical and chemical industry officials, the United States can develop packages of leverage, such as denying them visas if their companies fail to adopt global standards of preventing diversion.* Powerful Chinese industry actors may thus be incentivized to promote stricter regulatory standards and their enforcement within China.

Such a U.S. policy would be an aggressive move, but perhaps all the more powerful for it. But as in the case of U.S. actions against Chinese companies, the Chinese government might retaliate against U.S. individuals and look for ways to charge them with criminal conduct or espionage and arrest them.<sup>343</sup> Thus, the implementation of such a sanctioning mechanism would need to be judged very carefully within the broad context of U.S.-China relations.

*With respect to Chinese traffickers, the United States should of course continue to develop legal indictment portfolios against them and their companies, even if China will not extradite them.* Because of the poor state of human rights in China, the U.S. should continue to refuse to sign an extradition treaty with China. But Washington can and should deploy other punitive measures, such as limiting traffickers'



access to the international financial system, preventing their international travel, or attempting to have third countries arrest them and extradite them to the United States. Nonetheless, such indictments, particularly if the indicted individuals are linked to the Chinese government or the CCP, are not likely to stimulate China to engage in more extensive counternarcotics cooperation with the United States. Interpreted by China as making China lose face with respect to internal and external audiences, such indictments are more likely to push China into an even stronger defensive crouch than it has been in during the past several years.

*Working with other international partners, the United States could encourage China to start moving more seriously against Chinese drug trafficking networks in Southeast Asia and the Pacific.* But as long as these criminal groups also serve China's economic and internal control interests, such as against Chinese diasporas, Beijing's willingness to move against them will remain small. Thus, the United States will need to rely on other regional partners to robustly undermine those networks, even as new ones will emerge in their wake. However, particularly if in the future the replacement networks were not Chinese, the U.S. law enforcement challenges would lessen.

Even if China does mount effective law enforcement against the illicit trade in fentanyl-class opioids and their precursors, the supply to the United States is unlikely to dry up. New non-fentanyl-type synthetic opioids, not regulated in China or elsewhere, are emerging rapidly. The United States will need to engage with Beijing on Chinese regulation of these new drugs. But, crucially, the rapidly-evolving synthetic drugs market and its movement toward nonscheduled pre-precursors with widespread use in the production of legal chemicals and drugs severely limit the effectiveness of control measures. This structural reality will remain an intense enforcement and public health challenge even if major pharmaceutical and chemical industries adopt the above-outlined self-regulatory measures, and even if China develops an unprecedented willingness to strictly monitor the sales of even nonscheduled chemicals. And the production of synthetic opioids and their precursors can spread to many other countries, not the least India, with which the United States faces no smaller regulatory and control challenges even as it seeks to cultivate India as a strategic partner vis-à-vis China.

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