

Impact of Chinese Transnational Crime on Australia: Intelligence Perspectives

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Outline of presentation

- I focus on three issues in transnational crime from southern China which affect Australia
 - **Supply side:** southern China (Guangdong province)
 - **Facilitators:** Hong Kong and Macau
 - **Alliances** between Chinese and global criminal gangs

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Focus of presentation

- **Supply side: Southern Chinese transnational crime (focus on Guangdong province)**
 - Trafficking of illegal drugs (methamphetamines, precursor chemicals) to Australia
 - Counterfeit goods trafficking
 - Associated money laundering flows back to China and Hong Kong
- Future changes in Guangdong: What are the implications for transnational crime?

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Focus of presentation

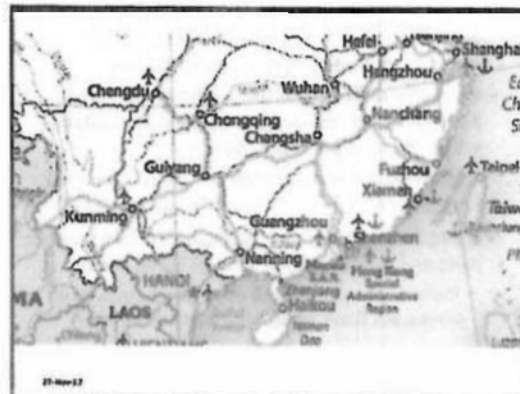
- **Transnational crime needs *facilitators* (bankers, accountants, lawyers) to arrange deals**
 - Hong Kong is a key hub for these facilitators
 - Macau is a secondary hub
 - Implications for Australian money laundering?

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Focus of presentation

- **Alliances between Chinese and global criminal gangs: Impact on transnational criminal activity in Australia?**
 - Latin American criminal gangs
 - European criminal gangs
 - North Korea
 - Vancouver (Canada)

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**Supply perspectives:
Transnational crime and money
laundering in southern China**

Transnational crime in southern China

- Guangdong is a significant source of Australia's transnational crime
 - Illegal drugs (particularly precursor chemicals and methamphetamines)
 - Counterfeit goods
 - Wide range of transnational crime in Guangdong (illegal betting syndicates, illegal timber, ivory, wildlife, "boiler room" and fake CEO scams, etc)

Transnational crime in southern China

- Guangdong is a good location for production and trafficking of illegal goods and services
 - World-class global logistics networks underpinning trafficking of illegal drugs, counterfeit goods and other illegal activities
 - Presence of a skilled workforce and equipment (printers, packaging) as well as unskilled people wanting employment
 - Close proximity to business and financial services in Hong Kong
 - Strong linkages with the global Chinese diaspora

Transnational crime in southern China

- Complexity of criminal activity in Guangdong
 - Enormous difficulties in unraveling the criminal participants and money laundering intermediaries within the province and in Hong Kong
 - Flexible networks in the legal and illegal economies (complex and fluid sub-contracting networks)
 - Guangdong has changed significantly in the past ten years and will continue to change in the future
 - The province grew rapidly using low-wage migrant labour, but these workers are needed less now

Transnational crime in southern China

- Complexity of criminal activity in Guangdong
 - Shift into high technology products and services industries
 - Impacts on crime?
 - Fewer male migrant workers who were prone to join criminal gangs
 - Fewer low-end counterfeit factories (likely to have spread to other regions in China); more technology intensive fakes
 - More cyber crime given the higher technology skills of the workforce

Facilitators of Asian financial crime: Hong Kong and Macau

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Hong Kong and Macau: Facilitators of Asian financial crime

- Hong Kong and Macau play a significant role in facilitating transnational financial crime affecting Australia
- Hong Kong is a major centre for global and Asian banking and business services
- Macau has the world's largest casino turnover and a history of facilitating crime, money laundering and capital flight
- Both cities have well-established networks of facilitators skilled at shifting money overseas via offshore banking and finance

Hong Kong and Macau: Facilitators of Asian financial crime

- "Mainland-based criminal groups typically engage in large-scale ATS production and export, while Hong Kong- and Taiwan-based groups finance large drug shipments in the role of lender and insurer. These latter criminal syndicates are involved in illicit market activities, protection services, loan sharking, 'money trail' avoidance services, and stock market manipulation, and use the financing of drug shipments as an investment." (Broadhurst, Roderic 2017 Asia's law enforcers face synthetic drug proliferation, *Jane's Intelligence Review*, 30 Jan.)

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Hong Kong: Facilitator of Asian financial crime

- Secrecy in Hong Kong's financial and business services
 - Hong Kong is ranked the second most secret offshore financial centre on the Tax Justice Network's global ranking
 - Hong Kong is a major global location for shell companies which are heavily used by Chinese, North Korean and global criminals
 - They provide anonymity for criminals

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Hong Kong: Facilitator of Asian financial crime

- Hong Kong plays a key role in offshore finance for China
 - The Panama Papers leak found that many wealthy and politically connected Chinese used Mossack Fonseca's services to access offshore markets
 - Mossack Fonseca is one of the many Hong Kong based financial intermediaries facilitating such transactions
 - Unfortunately, this type of information is rarely obtained

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Hong Kong and Macau facilitate capital flight from China

- A complex topic that is beyond the scope of this presentation
- Most of the flows are not of concern to Australian law enforcement agencies (e.g., currency speculation and capital diversification)
- However, capital flight from corrupt Chinese officials and/or Chinese criminals is a concern
- Australia must rely on cooperation with the Chinese government

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Hong Kong: Facilitator of Asian financial crime

- Hong Kong provides *global criminals* with access to global financial markets
- Case study: The "Russian Laundromat"
 - Around US\$20 billion were laundered out of Russia by Russian criminals in the period 2010-14 (possibly up to US\$80 billion)
 - Hong Kong banks (HSBC, \$545 million) and Chinese banks (Bank of China, \$715 million) played a significant role in the laundering of Russian money
 - Unfortunately, this information is a one-off and it is difficult to follow it up given the hazards of investigating organised crime in Russia

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Hong Kong: Facilitator of Asian financial crime

- Australian Implications
 - "Russian Laundromat": No information on whether any money from the money laundered by Hong Kong based (or London) banks ended up in Australia
 - Hong Kong plays a key destination role in money laundering of Australian illegal drug sales
 - Panama Papers: The ATO has revealed that about 80 of the 800 Australians being investigated following the Panama Papers leak match the Australian Criminal Intelligence Commission's serious and organised crime intelligence database (including bkie gangs involved in various criminal activities)

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Alliances between Chinese and global criminal gangs

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Global and local criminal gangs

- Europol has identified the growing problems faced by law enforcement agencies from global and European criminal gangs
 - Many Organised Crime Groups are highly flexible and display great adaptability in the speed with which they adjust their business models to changes in the environment. Many criminal groups are increasingly complex and require a variety of skills as well as technical expertise to carry out activities. (Europol 2017 *European Union. Serious and Organised Crime Assessment*. Brussels, p.11)
 - Europol has also identified that ethnic-based criminal gangs are forming alliances with other criminal groups

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Chinese global criminal gangs

- Mehlmann, Ning-Ning 2005 *Chinese Criminal Enterprises*, Washington, D.C., FBI
- Key characteristics are:
 - Global linkages via the Chinese diaspora
 - Fluid nature of operations (form new ventures and dissolve them)
 - Sophisticated operations (High degree of coordination, planning and good technical and business knowledge)
 - Global mobility of members
 - Financial strength (Operate in legal and illegal businesses
 - profits from illegal activities are placed in legal firms and reinforce the group's financial strength)

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Alliances between Chinese and global criminal gangs

- Australian law enforcement agencies face new challenges from alliances between Chinese, global and local criminal gangs
- Advantages of such alliances include:
 - Pool their respective strengths (Chinese criminal gangs have excellent global distribution networks)
 - Rapidly move into new markets and
 - Take advantage of weak links in the global economy
- The following four case studies illustrate these points

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Case study 1: Alliances between Latin American and Chinese criminal gangs

- Traffic cocaine to Hong Kong for China and Asia-Pacific markets
- Money laundered from Colombia to Hong Kong as well as through Macau casinos
- Traffic precursor chemicals and counterfeit goods produced in Guangdong to Latin America and globally
- Parallels with the Black Market Peso Exchange used by Colombian criminal gangs for cocaine trafficking to the U.S.
- These gangs have also diversified into people smuggling from China to Latin America and then to the U.S.

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Case study 1: Alliances between Latin American and Chinese criminal gangs

- These global criminal gangs are like multinational corporations which operate global networks and use the transport and business services infrastructure of southern China
- They trade opportunistically in what each region has specialised in (Southern China has methamphetamines, precursor chemicals, counterfeit goods and a supply of illegal migrants, while Latin America has cocaine)

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Case study 2: Alliances between Chinese and European criminals

- The European alliance model is quite different from the first case study
- Spain: ICBC and European criminal gangs
- Italy: Bank of China and Italian criminal gangs
- While the case study does not involve Australia, it does provide a possible model for the Asia-Pacific region

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Case study 2: Alliances between Chinese and European criminals

- Global Implications?
 - Chinese criminal gangs operated a regional hub-and-spoke operation with Tuscany in Italy and Madrid in Spain being the hubs; collected financial transfers within Europe, before sending them onto China
 - Imports of counterfeit goods, illegal drugs; local extortion, prostitution and sweat shops with illegal migrants; profits laundered out of Italy and Spain to China
 - Alliances with local criminal gangs (Camorra in Naples)
 - Key role of Chinese banks and money transfer services in money laundering

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Global implications of European case studies

- Do Chinese criminal gangs operate regional hub-and-spoke operations in (the Asia-Pacific)?
 - Have Chinese criminal gangs formed alliances with local criminal gangs? (e.g., bike gangs in Australia?)
 - If so, what are the money laundering implications?
 - Are Chinese banks and money transfer firms operating in Australia engaged in money laundering activities similar to those in Europe?

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Case study 3: History of alliances between North Korea and Chinese criminal gangs

- illegal drug production (North Korea) and global distribution (Chinese criminal gangs) (1990s and early-2000s)
 - Australian case study: Pong Su case in 2003 (Up to 125kg of heroin was imported)
- Counterfeit cigarettes: North Korea (production) and Taiwanese and Chinese criminal gangs (global distribution)
- Banco Delta Asia case in 2005 - (counterfeit US\$100 notes) produced by North Korea and distributed by Chinese banks

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Case study 3: Possible alliance between North Korea and Chinese criminal gangs

- Bangladesh Bank cyber heist of 2016 (approx. US\$66 million stolen, but the criminals attempted to steal just under \$1 billion)
- North Korea provided the technical capability for the computer hacking
- Hong Kong provides the shell companies for North Korean firms to evade UN sanctions and probably in the Bangladesh Bank heist (*facilitator role*)

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Case study 3: Possible alliance between North Korea and Chinese criminal gangs: Bangladesh Bank cyber heist

- Chinese criminals provided the links into the Philippines (Rizal Commercial Banking Corp.) as well as with the high roller gamblers and junket operators in China, Macau and Hong Kong
- They have an extensive presence in the Philippines illegal drug industry
- Detailed knowledge of the corruption in the Philippines banking industry (RCBC and PhilRem)
- Brought in high rollers and junket operators from China

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Case study 4: The Vancouver (Canada) model

- Complex networks of criminal alliances
 - Chinese underground banks are at the heart of Chinese criminal activity
 - Money laundered from Vancouver into/out of China and to other locations (Mexico, Colombia)
 - North American illegal drug networks
 - Supplied by Chinese (methamphetamines, precursor chemicals) and Latin American (cocaine) gangs
 - Facilitate capital flight from China
 - High rollers use Canadian casinos, role of junket operators, investment in Canadian real estate

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CONCLUSIONS

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Conclusions

- Need to monitor trends in transnational criminal activity in China and Guangdong in particular
 - Major difficulties involved in such an approach
 - Expand existing joint work with Chinese law enforcement authorities
 - Encourage China to more strictly regulate the Chinese chemical industry limiting the production of precursor chemicals
 - Recognise that the Chinese themselves have a limited understanding of criminal activity in Guangdong (population of over 100 million) and very rapid economic growth and internal migration

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Conclusions

- Intelligence gathering: Anticipating threats
 - Need for ongoing intelligence gathering to monitor new developments in money laundering
 - Chinese criminal gangs are innovative in developing new methods of smuggling money through financial markets
 - What are the “weak links” in the global and Australian financial system that are likely to be targeted by cybercriminals?
 - Other “weak links” amongst SWIFT’s members?

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Conclusions

- **China's future role in Australia's transnational crime**
 - China's economy is changing away from a low wage and unskilled one towards service and high-tech industries (e.g., Guangdong in particular)
 - China's transnational criminal economy will also change
 - Implications?
 - Smaller role for low-end counterfeit goods in Guangdong and greater role of technology-intensive fakes
 - Likely impacts on money laundering?

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Conclusions

- **Possible scenario: Sydney as regional hub for Chinese transnational crime (the Vancouver model?)**
 - Launder money into high-end real estate (capital flight)
 - Launder money through the high-roller tables in Sydney's casinos
 - Use Chinese and Australian banks, money transfer companies to shift money to/from China and other countries
 - Traffic illegal drugs from Guangdong and Latin America

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