

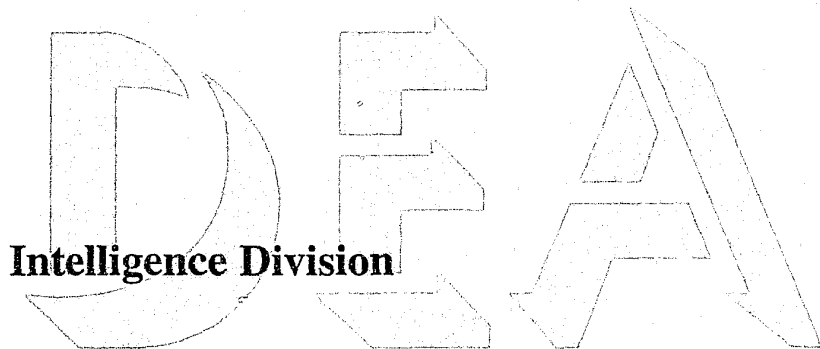
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U.S. Department of Justice  
Drug Enforcement Administration



# Asian Money Movement Methods

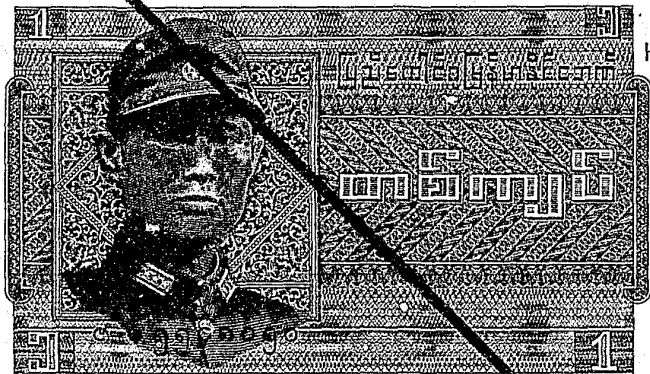
*Drug Intelligence Report*



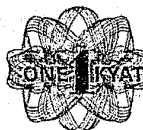
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Drug Enforcement Administration

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# Asian Money Movement Methods

*Drug Intelligence Report*

This report was prepared by the Financial Unit of the Strategic Intelligence Section. Comments and requests for copies are welcome and may be directed to the Publications Unit, Intelligence Division, DEA Headquarters at (202) 307-8726.

July 1994



## ADMINISTRATOR'S MESSAGE

Asian drug traffickers use a variety of methods to move funds throughout Asia as they organize ventures and move drug proceeds from customer countries back to Asia. Many of the Asian money-movement techniques are similar to those used by South American traffickers.

This report describes the various money-movement techniques used by Asian traffickers. One of the most popular methods, the Chinese underground banking system, has been given special attention due to its pervasiveness throughout Asia. Knowledge concerning the methods employed by the Asian traffickers will enable governments to take more effective legislative and enforcement actions against the drug money movers. In turn, this will assist authorities in tracking the drug proceeds to their final destinations where legislation permits forfeiture.



Thomas A. Constantine  
Administrator



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## EXECUTIVE SUMMARY

Asian drug traffickers use a variety of money laundering methods to move drug proceeds. They employ different techniques depending on whether they are transmitting the money from the United States to Asia or within Asia. When sending funds from the United States to Asia, traffickers often will elect to use simple, but effective methods, such as bulk smuggling, converting cash to checks or money orders, or transferring money by wire. When moving money between Asian countries, traffickers may use many of these methods, but frequently they turn to more sophisticated means, such as invoice manipulation, letters of credit, front companies, and gold and gem smuggling.

One of the most frequently used money laundering methods in Asia is the Chinese underground banking system (UBS), which is used to transmit both operating funds and profits. For Asian drug traffickers, there are several advantages to using the UBS over the official banking system. First, the system provides anonymity; there is no official paper trail for law enforcement authorities to follow. Second, the system is faster than the official banks; hundreds of thousands of dollars can be transferred to another country in a matter of hours. The UBS also offers low cost and convenience.

Although the UBS is misused by drug traffickers, it is used legitimately and routinely by many Asian ethnic groups. India has its own UBS, which is called *Hawala* and the Pakistani version is called *Hundi*. The UBS has a long history, which predates conventional banking systems. The system is based on family trust and the fear of community ostracism if that trust is betrayed. Because of this, law enforcement authorities cannot penetrate the system easily.

As the description "underground system" suggests, controlling the UBS through regulatory legislation is not likely. The enactment of money laundering legislation and other supporting laws in Asia will have little impact the UBS; these laws are established to oversee legitimate banks and financial institutions. Ultimately, effectively containing UBS abuses depends on changing attitudes towards compartmentalizing criminal activity. The facilitation of moving money to purchase drugs and the integration of drug proceeds into the legitimate economy are criminal activities as serious as drug trafficking itself.



# ASIAN MONEY MOVEMENT METHODS

Different money laundering and drug money movement schemes are used throughout Asia. These schemes vary by the organization and the type of drug trafficked. Thus Asian heroin, marijuana, and crystal *d*-methamphetamine hydrochloride (ice) traffickers rely on variety of networks to move and launder the proceeds of drug sales.

## HEROIN PROFITS

Profits from the sale of Southeast Asian heroin in the United States generally are smuggled to Hong Kong in courier-carried luggage. These proceeds, ranging from \$100,000 to \$1 million per trip, are in the form of cash, money orders, or cashier's checks under \$10,000.<sup>1</sup> Bank transfers, which are structured to be under the \$10,000, also are used.

Within Asia, heroin traffickers and suppliers—among whom ethnic Chinese are preeminent—use well-established unofficial Chinese banking systems to move both their operating funds and illicit profits. From residences primarily in Hong Kong and Thailand, these ethnic Chinese traffickers have business and family connections throughout Asia and the Pacific Rim that facilitate access to the underground banking system called *Hui Kuan* (Mandarin Chinese) or *Phoei Kwan* (Teo Chew Chinese), and known to Westerners by the acronym "UBS." [Note: *The term "UBS" will be used throughout this report.*]

Based in a cultural history of trust—and the stigma of community ostracism if that trust is betrayed—the UBS predates current banking systems. A system similar to the Chinese UBS, known as the *Hawala* or *Hundi* system, is used throughout the Indian subcontinent. Through the UBS, heroin traffickers can transfer \$500,000

from Hong Kong to Bangkok within hours simply by visiting a gold shop in Hong Kong's Western Market. Many UBS syndicates have operated since before World War II. Syndicates profit from underground transactions not by charging a commission, but by exploiting exchange rate differentials between countries. (The UBS system will be explained more thoroughly in a later section.)

## MARIJUANA PROFITS

Thai marijuana suppliers are ethnic Thais, as well as Thai/Vietnamese who emigrated to Thailand at the end of the Vietnam War. While not involved in the heroin trade, marijuana suppliers receive profits in Thailand or bank them in Hong Kong through the UBS in a manner similar to heroin traffickers. American, Australian, and British nationals who traffic Thai marijuana are more cautious because of asset forfeiture and money laundering laws in their respective countries. And, without strong family and business ties in Asia, it is difficult for these traffickers to use the UBS. When Western traffickers do use the Chinese UBS, they usually move money through shell companies, financial institutions, and other means commonly favored by Western money launders. The cost of moving money and trafficking profits is higher for Westerners operating outside the UBS than for Asian competitors using the system.

<sup>1</sup> All monies are quoted in U.S. dollars unless otherwise specified.

## METHAMPHETAMINE PROFITS

The primary suppliers of crystallized *d*-methamphetamine hydrochloride (ice) are mainland Chinese, Taiwan Chinese, Koreans, and Filipinos. Hong Kong Chinese have set up ice production laboratories in China's Fujian and Guangdong Provinces. Japanese Yakuza organized crime groups distribute ice in Japan as well as in Hawaii and on the U.S. West Coast. In 1988, the Japanese National Police Administration estimated that the Yakuza earned \$3.2 billion in profits from ice trafficking in Japan alone. Profits from their Hawaiian and West Coast operations also make their way back to the Japanese banking system. However, the Japanese organized crime groups do not use the Chinese UBS for money movement or laundering.

## LEGISLATION

Among Asian and the Pacific Rim countries, asset forfeiture legislation currently exists only in Australia, Hong Kong, and, to a degree, Malaysia and Thailand. Although Singapore enacted asset seizure legislation in October 1993, no case yet has been prosecuted under the law. Money laundering legislation is comparably weak throughout the region. Knowingly handling drug money is a crime only in Australia, Hong Kong, Japan, Malaysia, Singapore, and, most recently, Thailand.

Theoretically, asset forfeiture and money laundering laws are powerful weapons in the fight against drug trafficking: when forfeiture laws are implemented, drug traffickers are forced to launder their illicit profits—making themselves vulnerable to money laundering statutes. But circumstances in Asia make the application of this strategy against heroin traffickers problematic. The deterrent effect of recent or projected money laundering legislation in the region is likely to be undermined by traffickers' increased use of the UBS.

# THE CHINESE UNDERGROUND BANKING SYSTEM

## THE BEGINNINGS

The Chinese UBS predates the Chinese commercial banking and postal systems. Chinese overseas workers supported their families in China by routing their remittances through rice merchants who travelled throughout Asia supplying rice to the Chinese diaspora. Organization of the rice trade vitally involved these merchants in much of the region's shipping and commerce. Taking advantage of established merchant shops and shipping schedules, the fledgling Chinese postal service began sending both letters and remittances through these de facto post offices and carriers. When government-controlled post offices and officially registered banks eventually were instituted, the inefficiency and high fees that came with them insured a continuing role for underground bankers in Asian societies. In Thailand for example, Teo Chew Chinese families already in the remittance business founded the major banks. For the most part, the banks remain in the hands of these powerful families, which explains the current, deep-seated alliances between Thai banks and major money moving organizations.

## WHAT THE SYSTEM CAN DO

The UBS can transmit large sums of money efficiently and quickly with a minimum of paper work by bypassing legal banking procedures and practices. Clients use it for a variety of reasons, from overseas workers supporting relatives to tax evaders looking to avoid official scrutiny of their financial transactions. The system also is used by criminals who are similarly anxious to avoid official scrutiny of profits derived from trafficking in drugs and other illegal activities. At one end of the continuum, then, the UBS provides a community service; at the other end, it offers drug traffickers a tool for money movement and laundering.

## VARIOUS NAMES FOR THE SYSTEM

UBS is known by a variety of names in different countries and languages. In English, the system can be called "parallel banking." In Chinese it is called *hui k'uan* (CTC:0565/2949) (Mandarin dialect) meaning "to remit sums of money" or *ch'iao hui* (CTC:0294/0565) (also Mandarin dialect) meaning "overseas remittance." Among the Chiu Chow Chinese it is called *phoe kuan* (CTC:2106/5290), which refers to the type of store—the "message house"—that is used in the system. The Chiu Chow and other Chinese also generally refer to the system as *Nging sing kek* (CTC:6892/0207/1444), which means "money letter shop." Some Chinese reportedly refer to the system as *fei ch'ien* (CTC:7378/6929), meaning "flying money."

Foreigners sometimes refer to the Chinese system as "chop shops." This designation reflects the practice of system users possessing a designated Chinese "chop" (ivory or wooden name stamp) to collect their money. Another common reference is to the "chiti system," which stems from the use of a simple "chit" or receipt as evidence that money has been remitted.

Most ethnic groups worldwide have a UBS of some form. For example, Australian authorities report that Vietnamese nationals in Australia call their system *hui*. This may be short for *hui k'uan*, or may refer to the word "association," meaning a mutual money lending organization. The most prominent and widely practiced system is operated by Indians and Pakistanis. In India, it is called *Hawala* (meaning "reference" in Hindi), and in Pakistan it is called *Hundi* (meaning "trust" in Urdu).

<sup>2</sup> Chinese Telegraphic Codes (CTC) are provided for Chinese terms throughout this document.

## A SYSTEM BASED ON TRUST

The UBS works on "trust." This trust is not grounded in virtue or humanitarian principle, but in profit motives strengthened by familial relationships, local social strictures, ethnic ties, or secret society loyalties. Generally, there is no legal recourse if the UBS fails to fulfill a financial obligation. But when a "trust" is breached, communal ostracism or worse follows.

Many times the trust between the branches of a Chinese UBS runs along familial lines. For example, a major Thailand-based Chinese organization is founded entirely on one extended family. Branches have been identified in Hong Kong, Malaysia, Singapore, Thailand, and the United States. In each of these countries, at least one branch director is an offspring, sibling, cousin, or in-law of the organization head. In this situation, the underground banker who failed to remit money would cause the entire family to "lose face."

Trust among money movers of the Chiu Chow ethnic group originates in a broadly shared ethnic tie. But these money movers also may be bound by deeper trusts stemming from identification with an ethnic subgroup, such as the Chao An, Chao Yang, or Pu Ning, or to an organized crime group, such as the Hsin I An (Sun Yee On) or Yee Kwan Triads. In these systems, a breach of faith would result in ostracization from the group. Nevertheless, whether the UBS is based on familial, ethnic, or societal ties, the broker who breaks a trust effectively commits economic suicide.

## ASIAN ORGANIZED CRIME INVOLVEMENT

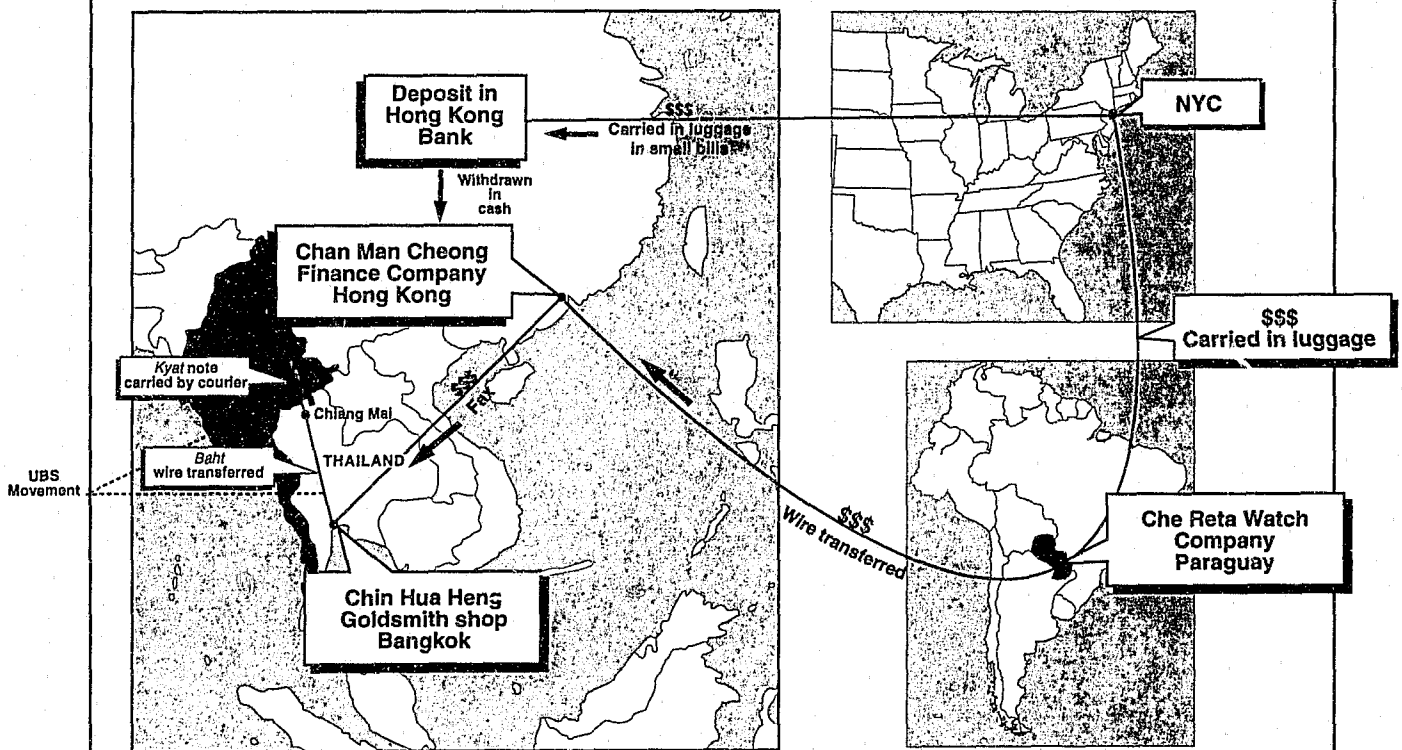
Trust within a Chinese UBS also may be based on a secret brotherhood, such as a triad. With its oaths and accompanying disciplinary code, triad-based systems treat violations severely: bankers judged untrustworthy face more than just "economic suicide."

In the United States, several Chinese money laundering and money movement groups have been associated with triads. While insufficient intelligence exists to draw definitive conclusions about the frequency and strength of the ties between underground money brokers and organized crime groups, several connections have been documented. Although Chinese organized crime groups move money from the United States through a variety of money moving schemes other than the UBS, these examples represent only a small portion of Chinese underground banking groups tied to triads.

- A money laundering organization made up of 14K Triad members, including corrupt New York bank official Ernest Liu, moved the drug proceeds of the major Hong Kong trafficker and 14K Triad office bearer Lai King-man, as well as other Hong Kong drug traffickers.
- The Hang Men Association, once run by Harry Mook in Boston, moved gambling money collected by the Hip Sing Tong in New York City and drug money for the Johnny Eng organization.
- Convicted trafficker Kon Yu-leung used his group of Wo On Lok Triad members, to move his drug money back to Asia (see figure 1).

Figure 1

### Kon Yu-leung Heroin Trafficking Organization and UBS Money Movement



Chin Hua Heng Goldsmith shop on Yaowarat Street, Chinatown, Bangkok.

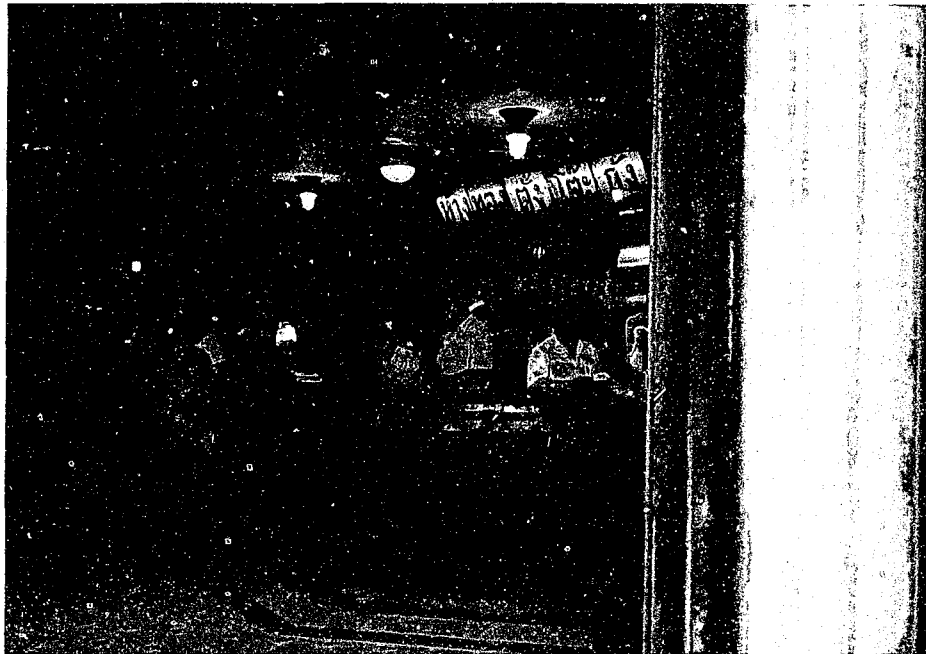
Convicted heroin trafficker Kon Yu-leung used Wo On Lok Triad members to move drug money back to Asia. Kon's organization collected drug proceeds in New York City and carried them back to Hong Kong in suitcases containing \$300,000 in small bills. They also carried money to Kon's watch company in Paraguay, from where it then was wired to Hong Kong. In Hong Kong, all funds were deposited temporarily in legitimate banks.

To finance new heroin purchases in Thailand, the funds eventually were brought by Kon's lieutenant to Hong Kong's Western Market district and sent to Thailand through the Chan Man Cheong Finance Company, a Chinese UBS front. The Bangkok heroin supplier, Suchin Siritattana, collected the money from the Chin Hua Heng Goldsmith shop in Bangkok's Chinatown and deposited it into Bangkok banks. From there, the funds were wire transferred to Chiang Mai, received by the heroin supplier's organization, and forwarded through another UBS system to Burma to finance opium processing and trafficking operations. (This method is explained later in this report).

- The Wo Hop To Triad allegedly controls various California-based money laundering organizations. Many Asian card casinos in California are used by these organizations to launder money; these casinos change small denomination bills to large bills and transmit funds overseas.
- The Hong Kong-based Sun Yee On Triad is also in the money movement business. In fact, the head of the Sun Yee On, the "Dragon Head," owns a finance company in Hong Kong. Law Kin-man and other Sun Yee On Triad members ran the largest United States-to-Hong Kong money movement operation yet encountered.

## WHERE THE SYSTEM OPERATES

The UBS essentially involves the non-bank institutional transfer of funds. As with formal banks, "value" not funds are transferred. The UBS exists both in countries with laws controlling the exportation of funds, like Thailand, and in countries with no controls, like Hong Kong. It exists both in countries with convertible currency, like Australia, and in countries with nonconvertible currency, like Burma. It exists both in countries with strict currency exchange laws, like Japan, and in countries with lenient currency laws, like Hong Kong. In short, the UBS flourishes in countries where inefficiencies, costs, regulations, or official scrutiny burden the official banking system.



*Interior of a gold shop in Chinatown, Bangkok, Thailand.*





*A typical remittance company in the Yaowarat Section of Bangkok, Thailand.*

For example, China's banking and postal systems currently are in such disarray that the UBS system in China is growing rapidly. In October 1993, Chinese authorities seized \$1.38 million from a grocery shop in Fujien Province that was being used to remit the proceeds from drug and alien smuggling ventures to the United States. Informal money movement channels also are proliferating between Taiwan and both Thailand and China. In one case, a Taiwanese underground banker remitted money to China through a UBS on more than 3,200 occasions from 1990 to 1991. Using jewelry and industrial front companies as cover, the dealer advertised in a local newspaper to solicit business. As new Taiwan dollars were brought to the money mover, he would telefax from Taiwan the listed dollar amounts and the recipients' names to an associate in Hong Kong. The Hong Kong associate then converted the money and left the underground system by sending the money into China through the official postal remittance system.

## HOW THE SYSTEM WORKS

The UBS consists of a variety of businesses, most typically gold shops, travel agencies, money exchangers, finance companies, and import/export companies. At certain stages of money transfer, the system relies on legitimate banks. For instance, a UBS trading company in Hong Kong requires that clients open accounts in the same bank where the company's accounts are held. The user makes an intra-bank transfer of funds to the UBS company's account. Upon notification from the bank of the transfer, the trading company contacts a sister company in Thailand to release an equivalent sum in Thai currency (the *baht*) to the designated receiver.

## THE TRANSFER OF FUNDS

Most Chinese systems can make money available in a different country in a matter of hours regardless of amount. There is no physical transfer of funds; the transfer is merely a bookkeeping entry. The sending company takes a credit in its bank account and the receiving company records a debit.

## **AN EXPLANATION OF THE SYSTEM BY A FORMER THAI MONEY MOVER**

A Thai money mover in Chiang Mai formerly ran a money movement organization that operated in several Asian countries. The system was used on occasion by several drug trafficking organizations to move funds, though one trafficker relied on it exclusively. The broker explained the system as follows.

### **Initial Transmission of Funds**

Traffickers visited the money mover's jewelry store and provided the cash to be transmitted outside Thailand. The money mover then gave the client a receipt (figure 2) and credited an entry into the store's books (figure 3). The funds then were deposited in the store's Thai bank account. As the sending company, the money mover telephoned the organization's receiving company, giving the amount, the name of the designated recipient, and the recipient's telephone number. The manager of the receiving company contacted the designated recipient to arrange the pick up of the money, which was paid out in the local currency. The organization's company in the receiving country recorded a debit entry.

### **Reconciling the Books**

As the sender's credits and the receiver's debits mounted, the accounting books needed to be reconciled. The sender regularly took the surplus cash to one of the three major money movers in Bangkok, who sent it to the company showing the debits. Ironically, this comparatively minor broker turned to the system's major money movers because the rates they charged were better than the rates he charged others.

### **Use of the Thai Domestic Banking System**

When money was moved for purposes of purchasing heroin in Chiang Mai, brokers used the domestic banking system. The money was brought from the UBS business in Thailand to a bank in Bangkok, then wire transferred to a bank branch in Chiang Mai.

### **Acknowledgment of Receipt of Funds**

A representative from the Chiang Mai bank informed the recipient that the remittance had arrived. In Thailand, reporting of internal currency transactions is not required. Therefore, the domestic banking system is used to move money throughout the country. However, drug traffickers have found it advantageous to use the UBS when moving funds from Thailand to Burma to pay for opium, mule caravans, chemicals, and heroin refinery operations. Carrying money across the border is dangerous. And if sent through the international banking system, the official exchange rate exacts a steep charge. The difference between the official and black market exchange rates for the Thai *baht* and the Burmese *kyat* (4.3 *baht* to 1 *kyat* officially, .17 to 1 unofficially) makes legal currency exchange disadvantageous to businessmen and drug traffickers alike.

Figure 2

A RECEIPT FROM CHAN MAN CHEONG FINANCE COMPANY

CHAN MAN CHEONG FINANCE CO.

陳萬昌銀號

RECEIPT NUMBER → No. 18250

茲代 重標

先生號 港幣

收到 壹佰陸拾萬元

交 陸金水

收訖

該款經照來址

(此條閱條毋庸繳銷)  
(此收條由發出日起壹個月內有效逾期作廢)

年 月 日

人

"AH PIAO"  
(LAU SHU-MING)

HONG KONG  
DOLLARS

REMITTED TO

\$1,600,000  
(U.S.\$205,000)

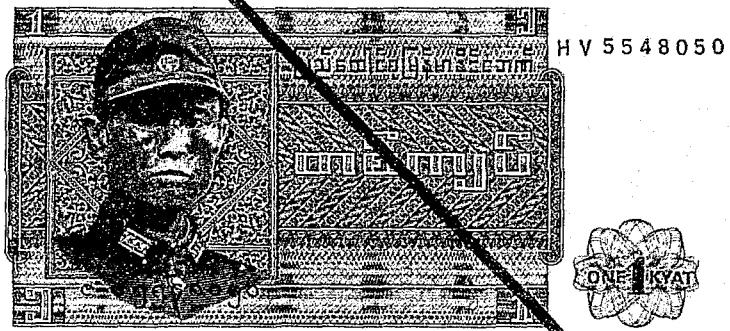
RECEIPT  
NUMBER

DATE  
NOVEMBER 11, 1986

TONG KAM-SUI  
(SUCHIN SIRIWATTANA)



The money movement is often bidirectional; in some cases, similar amounts of money are remitted in both directions. For example, a system's money flow may be roughly equivalent between two points, such as the Philippines and Hong Kong. Moreover, capital flight from the Philippines may approximate overseas workers' remittances back to the Philippines. Conversely, between Hong Kong and Thailand money movement has been one-sided. One UBS company's books showed that the money being remitted through the system from Thailand to Hong Kong is three times the amount being remitted the other way. Where the transfers are one-sided, the need for regular compensation is greater. Nevertheless, between any two companies in different countries, books must be balanced.



*Burmese 1-kyat note used as a receipt or "chit."*

### MONEY MOVEMENT FROM THAILAND TO BURMA

One system for moving money from Thailand to Burma stretched between family members in four Burmese cities and in Chiang Mai and Mae Sai, Thailand. Newly issued 1-kyat notes with consecutive serial numbers were obtained from a bank in Burma (recently, due to inflation, money movers have used 10-kyat notes) and carried or sent to family businesses in Chiang Mai and Mae Sai. By agreement, the family cashed a certain amount of these new notes for 10,000 kyat in family stores in Burma. Thus, a client in Chiang Mai wanting to send 30,000 kyat to a heroin refinery in Burma deposited the amount in Thai baht (16,600 at black market rates, plus a fee) at the family's store either in Chiang Mai or Mae Sai. The store owner then provided the client with three 1-kyat notes, each redeemable for 10,000 kyat. The notes were carried from Thailand to one of the family's stores in Burma, where the three 1-kyat notes brought 30,000 kyat (see kyat note above). This system had the added benefit both of protecting couriers from robbery (1 kyat is worth less than 10 cents, depending on current exchange rate) and decreasing the likelihood of their absconding with the money.

## THE BALANCING OF THE BOOKS

Evidence suggests that the Chinese UBS uses bulk money shipments and established banks to balance companies' books. To correct situations where, as previously described, three times as much money flowed from Thailand to Hong Kong than vice versa, Thai money movers used one of the three or four major money movers in Bangkok to balance their accounts with companies in Hong Kong. One of the smaller money movers, who had a moderate business in the Golden Triangle, explained that he deposited the surplus money with the major mover, paid a commission, and had an associate in Hong Kong pick up the money. To balance their books, major Thai money movers used larger banks to transfer their money first to an intermediate country, such as Switzerland, and then to Hong Kong. Deep family and clan ties between major money movers and the heads of Thai banks facilitate accommodation of money moving syndicates by banks.

In another instance in the 1980's, a UBS company was sending bulk shipments of money through southern Thailand to Penang, Malaysia. Once the money entered the Malaysian banking system it was wired to Hong Kong in U.S. dollars, thus passing through New York's Clearing House Interbank Payment System (CHIPS).<sup>2</sup> After this scheme was uncovered by the Malaysian authorities and the money mover realized that seized documents implicated hundreds of clients, the organization changed its methods. From then on, cash shipments were carried by couriers directly to Hong Kong.

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<sup>2</sup> All international wire transfers of U.S. dollars are sent to clearing houses in New York where the transfer of U.S. dollars occurs between corresponding banks.

## THE ADVANTAGES OF THE SYSTEM

Use of the UBS has several advantages over the official banking system, the first being **anonymity**. Although ledgers are kept and receipts are given to the remitters, UBS systems create no official paper trails, a priority for those moving illegal funds or avoiding taxes. However, should a transaction go awry, users have no official avenue of redress.

The system also is **faster** than the official banks. Hundreds of thousands of U.S. dollars can be transferred in a matter of a few hours, if necessary. Banks, on the other hand, are notorious for holding money transfers or "taking their time" in clearing checks, which enables them to earn interest on the money they are holding.

The **low cost** is a third advantage. Chinese underground bankers charge only a small fee because their profit is made in exploiting "unofficial" currency exchange rates, which are more favorable than banks' official exchange rates. For example, when transferring funds from Chiang Mai to Burma to finance heroin refinery operations, the SUA uses a broker to approach a Chiang Mai money mover. Receiving the money mover's quoted rate of 95 Thai *baht* for 1000 *kyat* delivered in Burma, the SUA representative knows that a better rate of 90 Thai *baht* could be gotten elsewhere. But the higher rate is accepted because half of the 5-*baht* difference will be his "kickback"—profit.

A fourth advantage of the UBS is **convenience**. Hometowns and villages of Asian overseas workers most likely do not have a national bank branch, but will have remittance businesses or stores. Therefore, UBS recipients do not have to travel to cities to receive their money. And because the official banking and postal systems are inefficient, alternate financial instruments are sought. In China, for example, underground banking remittances are expected to rise because of a shortage of funds in the licit remittance system. Banks have adopted emergency measures—issuing IOU's instead of cash—to solve their difficulties in cashing postal remittance slips. Those who are not getting their remittances through the legitimate system are turning to the UBS to send and receive money.

Even efficient and available banks are not necessarily enough to undermine use of the UBS. In 1960, most of Hong Kong's underground banks were located in Hong Kong Island's Western Market District and operated by the Chiu Chow Chinese. The Bank of America, learning that more money moved internationally through the district's gold, finance, and jewelry shops than through Hong Kong's legal banking system, opened a branch there. However, it did not remain open for long. Convenience alone was not a sufficient inducement to capture a share of the money moved through the UBS.

Under certain circumstances, a preference for the UBS can leave users vulnerable to law enforcement intervention. In one case, two heroin traffickers went to Hong Kong's Western Market District to send money to Thailand via UBS for a heroin purchase. Though one trafficker, a Hong Kong native, suggested that a particular business under police scrutiny not be used for the transaction, the second trafficker, who had used the shop for years, ignored the advice. Hong Kong authorities arrested the traffickers and raided the shop. Although, as stated previously, these systems do not keep official books, the records that the shop had were seized and used as evidence against the traffickers (figure 3). Moreover, because of the publicity and loss of its books to the police, within weeks the shop, which had been one of Hong Kong's major underground banking organizations, went out of business. However, it later opened again under a new name.

Despite its traditional acceptance within Asian communities, the UBS system is fragile. Minimal law enforcement effort, such as a raid, can disrupt the system. Furthermore, by allowing authorities access to a wealth of intelligence about trafficker operations, such efforts ultimately can destroy some drug trafficking organizations.

## **OTHER MONEY MOVING METHODS USED BY ASIAN TRAFFICKERS**

### **BULK SMUGGLING**

Bulk smuggling of currency is believed to be the most common method of moving drug money to Asia. Laws regulating the amount of currency carried into most Asian countries are not a significant deterrent to bulk smugglers. For example, U.S. dollars (the proceeds from drug sales in the United States), are being brought into China in large amounts. In 1993, a courier took \$2,000,000 into China's Shenzhen Province in four \$500,000 increments. On each trip, he simply presented his home pass and declared the money in his possession. As with other travelers bringing hard currency into China's economy, Chinese customs inspectors permitted him to enter with no questions asked.

### **INVOICE MANIPULATION**

Invoice manipulation involves the falsification of shipping documents and invoices through the overvaluing and undervaluing of imports and exports. Manipulation also may involve the creation of invoices for nonexistent shipments. Underground bankers in the Chinese UBS use this method to move money and launder drug proceeds, either through front companies and/or letters of credit schemes.

Drug traffickers operating front companies can make drug money resemble the proceeds of legitimate business transactions through invoice manipulation. Currency can be exchanged and moved between accounts in different countries throughout the world, limited only by the number of front companies the trafficker or underground banker operates.



## LETTERS OF CREDIT

Money movers operating import/export companies often launder money by issuing or forging letters of credit. Issued by banks at the request of an importer/buyer, letters of credit are bank promises to pay an exporter/seller in another country when that exporter/seller presents appropriate documentation.

Documentation normally presented includes the commercial invoice, customs invoice, packing list, and a bill of lading.

To illustrate: a U.S. business places an order for goods with a company in Taiwan. The U.S. business contacts the U.S. bank holding its accounts and authorizes the release of a sum of money to pay for the goods ordered. A letter of credit then is issued to the Taiwan company's bank. The U.S. bank wire-transfers the correct amount to the Taiwan bank where the money is converted into local currency. The Taiwan company presents the required documentation to the bank, proving that the goods have been shipped. The Taiwan company also presents the letter of credit to the bank and receives payment for the merchandise sold.

Over-invoicing and false letters of credit are used to bring U.S. currency into Asian countries. In 1989, for instance, associates of heroin trafficker Chen Jui-chang manipulated these instruments to move dollars from Taiwan to Thailand. A company in Taiwan placed an order for merchandise with its associate company in Thailand. A \$100,000 letter of credit was sent from Taiwan for goods worth only \$4,000. The associate in Thailand cashed the letter of credit, creating a surplus of \$96,000 that he deposited into a Thai Farmers Bank account. In this manner, over \$3 million were brought into Thailand within a 1-year period.

## FRONT COMPANIES

In the above-mentioned case, Chen Jui-chang's associates also used the services of an underground banker to launder over 26 million *baht* (\$1 million) in a 6-month period. The underground banker moved money through a gold shop in Thailand and a Thai Farmers Bank account.

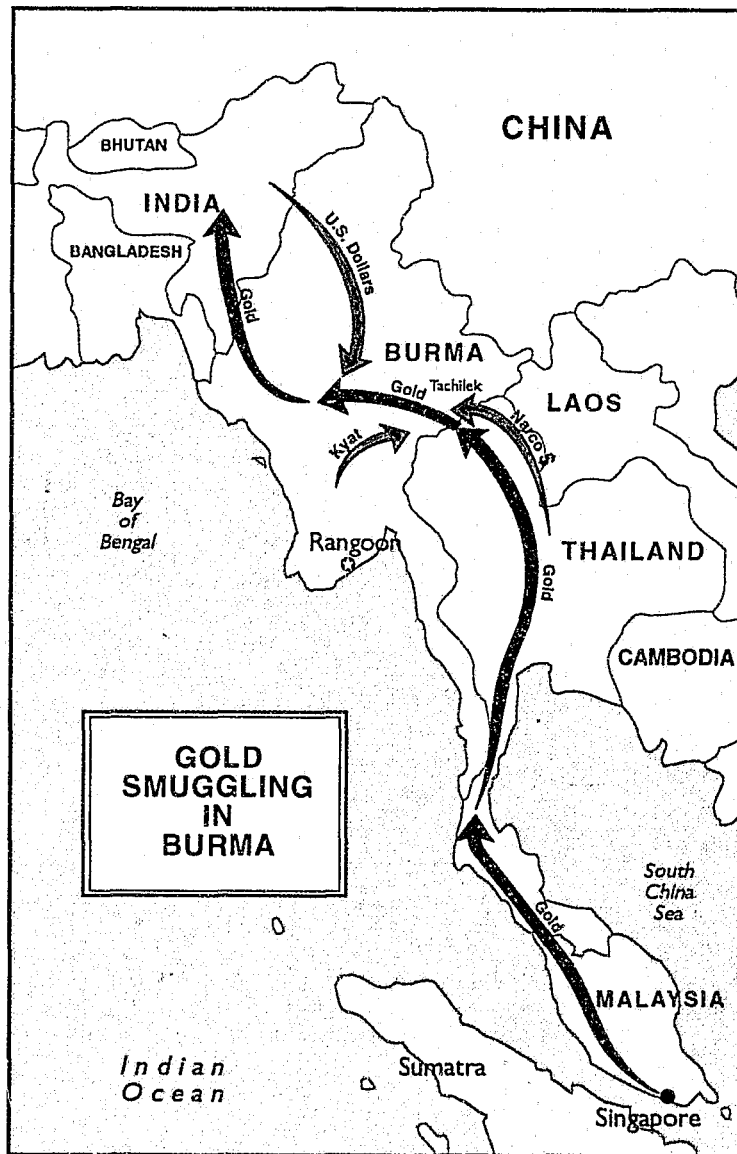
In other cases, in addition to the gold shop, money was laundered through associate front companies located in Hong Kong and Taiwan. In 1990 and 1991, the underground banker sent over \$3 million from Thailand to Taiwan via Hong Kong. Picking up money from drug traffickers, the underground banker deposited the currency into his Thai Farmers Bank account, notifying an associate front company in Hong Kong of the transaction. This company transferred the funds by writing a check to yet another front company (also in Hong Kong). Once the check had been sent, the first company sent the underground banker a facsimile of the bank documents confirming that the transaction had taken place. Finally, the second Hong Kong front company sent a credit document to another associate front company in Taiwan allowing the trafficker to pick up his now-laundered money.

## GOLD AND GEM SMUGGLING

Burmese money movers get U.S. dollars by smuggling offshore drug profits over the Thailand-Burma border (figure 4). These profits may be in mediums other than currency. Gold and gems, such as diamonds, rubies, and sapphires, are smuggled into Burma and converted into *kyat*. The *kyat* is used to pay for opium production costs.

Gold, representing the profits from illegal drug sales in Tachilek, a Burmese border town, is smuggled to Rangoon on Burmese commercial flights. Typically, bribed security agents carry several kilograms of gold per trip. The gold is exchanged for U.S. dollars at the Indian border. Indian currency smugglers then resell the gold in India at a significant profit. Drug traffickers use newly acquired U.S. dollars in Burma to purchase items that can be bought only with hard currency. Unspent dollars are converted back to *kyat* at black market rates to pay for opium cultivation and production costs.

Figure 4



Smuggling route for drug profits over the Thailand-Burma border.

## THE USE OF CURRENCY DECLARATION FORMS IN BURMA

By law, hard currency entering Burma must be reported on a currency declaration form. This provides proof that the hard currency is legal tender and may be used to purchase goods. Subsequent expenditures are recorded and deducted from the declared amount. Foreigners entering Burma with hard currency must deposit it in the Foreign Trade Bank prior to spending it. Burmese citizens returning from abroad also are required to deposit hard currency into the Foreign Trade Bank, where 25 percent is converted immediately at the official rate of 6 *kyat* for \$1. (Money exchangers offer black market rates of anywhere from 100 to 140 *kyat* per dollar.)

Although Burmese law regulates hard currency in this manner, these requirements are evaded. The currency declaration forms filled out by travelers who bring hard currency into Burma sometimes are used to make profits. In one method, Burmese money exchangers work with expatriate Taiwanese businessmen and money movers (see box). In addition to Burma and Taiwan, this particular syndicate has outlets in Hong Kong, Thailand, and the United States.

### MONEY MOVEMENT OPERATIONS IN BURMA

In one recently discovered scheme, a tour company, established by Taiwanese businessmen to provide tours of Burma for Taiwanese nationals, served as a vehicle for moving money. Burmese money exchangers contacted their Taiwan counterparts and arranged the recruitment of tourists who agreed to participate in the money laundering plan. The tourists were told by tour organizers the amount of U.S. currency to declare when entering Burma, even though they were not carrying the currency. Bribed airport security personnel were provided with tourists' names and the amount of U.S. currency to give each of them. When the tourists arrived, they collected the currency from the security personnel and completed the currency declaration form. As the tourists left the airport, they were met by a Rangoon money exchanger, who took possession of the currency and declaration form. Because the money had been declared, it can be used to make purchases on the Burmese economy. When the tourists departed, the money exchanger returned the used declaration form. The U.S. currency used in these operations usually was obtained at the Indian border in exchange for gold smuggled across Burma.

The money changer used the declaration form to purchase high-priced items, such as automobiles, which can then be resold at an inflated rate to other Burmese for *kyat*—thereby generating huge profits. For example, a vehicle purchased for \$10,000 could be resold for \$50,000 in *kyat* at the black market rate, giving the money exchanger \$40,000 in profit. Money also is made by selling the form to other money exchangers because a single form can be used repeatedly as long as the purchases are not recorded on the declaration form. Additional bribes or commissions must be paid so that the declaration form is not "chopped," or initialed, by each merchant. The final merchant to chop the form shows that all U.S. currency declared on the form was spent in Burma.

# MONEY MOVEMENT BETWEEN THE UNITED STATES AND ASIAN COUNTRIES

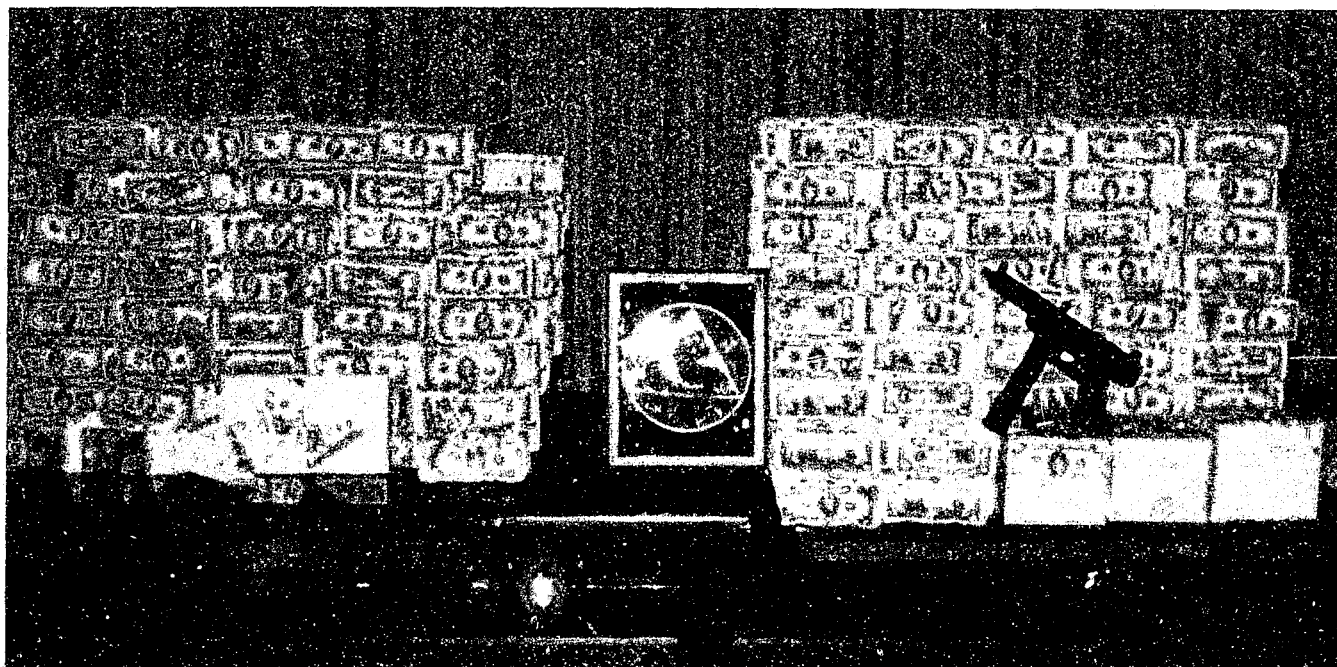
## BULK SMUGGLING

Evidence suggests that the UBS is used infrequently to move money between the United States and Hong Kong. Most drug-related proceeds are carried back to Hong Kong by couriers in the form of cash or cashiers' checks. In addition, it is wired back to Hong Kong in amounts below currency transaction reporting thresholds.

Because the risk of loss is greater when moving in bulk, costs are higher. One operation charges a 4- to 6-percent commission to move drug money from New York City to Macao and Hong Kong. Money movers are responsible for seized currency shipments. When undocumented money shipments are discovered and seized,

money movers typically abandon them instead of filling out required U.S. Customs Service Currency and Monetary Instrument Reports and paying fines.

Traffickers' lack of understanding of more sophisticated money laundering methods often results in a reliance on bulk currency smuggling. In some cases, especially involving new trafficking groups from mainland China, drug proceeds are returned to Hong Kong quite haphazardly. For example, Asian traffickers in New York received 360 kilograms of heroin concealed in a tire shipment—one trafficker then told his associates to use the tires to return the proceeds. Similarly, traffickers sending heroin to New York in print-roller pipes used the same roller pipes to move the profits back to Southeast Asia.



*A 1990 seizure of more than \$8 million in New York City.*

## MAIL

Asian traffickers also use mail services (e.g., parcel post and Express Mail) and overnight message services (e.g., Federal Express) to send proceeds to Hong Kong. Currency may be packaged in bulk or placed within a shipment of goods to be mailed. In a 1990 case, the raid of a New York City drug trafficking syndicate resulted in the arrest of four individuals and the seizure of over \$8 million. It was discovered later that this organization had been sending its proceeds by Express Mail to Hong Kong concealed in wooden frames.

## CASINOS

Three forms of money laundering operations are run from casinos. The first—an intermediary conversion of drug money from small denominations to larger denominations—facilitates the smuggling of bulk shipments from the United States. The Chinese refer to this procedure as converting “shrimp” to “lobsters,” the lobster being a Chinese allusion to the \$100 bill. A famous Chinese gang member in New York City has the nickname “Lobsterhead” because of his resemblance to the portrait of Benjamin Franklin on the \$100 bill.

A second form involves disguising the origin of drug money and “cleaning it” so as to allow it to reenter the economy as “legitimate” currency. Drug money is converted to chips in amounts below \$10,000, the threshold at which a Currency Transaction Report for Casinos (CTRC) must be filed. Some chips are gambled in the casino, but most eventually are cashed in for a casino check, permitting the drug proceeds to appear as casino winnings.

In a third form of casino money laundering, illicit money is transferred internationally between casinos. Accounts are opened in the name of the person sending the money and credited with the remittance.

In the United States, Asian drug traffickers use all three methods to launder profits. Asian-owned small casinos or card clubs often are exploited. For example, a Taiwanese organized crime group is known to launder its heroin proceeds by using California card clubs and Las Vegas casinos. Obtaining a casino line of credit, the traffickers subsequently have their illicit proceeds wire-transferred from Taiwan or Thailand to that account. Traffickers also use the line of credit to purchase chips, which are used to repay debts. Cashed in, the chips also can be wire transferred and thus laundered.

## USE OF THE HAWALA SYSTEM

Ethnic Chinese heroin traffickers in the United States sometimes use the Indian version of the UBS, called *Hawala*, to transfer funds worldwide, probably because there are few Chinese systems active in the United States. Additionally, due to the relative small size of Chinese economic community in the United States, confidentiality in dealings may be difficult to assure. Drug traffickers may fear that Chinese underground bankers would leak information—either within the community or to U.S. authorities—about their money transfers that would jeopardize their profits and lives. Thus, the use of an Indian system guarantees the critical quality of the UBS—confidentiality.

The Chinese and the *Hawala* UBS systems are identical in their adherence to trust, confidentiality, and efficiency; both operate on an international scale. In a typical example, a Chinese trafficker enlisted the services of ethnic Indian *Hawala* dealers to transfer hundreds of thousands of dollars from New York City to Bangkok. The trafficker brought the cash to the Indian's gem trading company on Fifth Avenue. The *Hawala* dealer contacted a counterpart in Bangkok, who made the money available at a gem trading company. The trafficker's associate in Bangkok then was notified and told to pick up the money at the gem store. In a somewhat similar case, it appears that Chinese traffickers in Seattle, Washington, use a Pakistani *Hundi* system to convert heroin proceeds into U.S. dollars in Vancouver, Canada. It is not known whether they use the same system to move money overseas.

## PRECIOUS GEMS

Asian drug traffickers use precious gems such as diamonds, rubies, and emeralds to launder illicit proceeds. In June 1992, it was learned that one organization moved part of its drug proceeds to Hong Kong by purchasing diamonds in the jewelry center of New York City's Chinatown and sending them by courier to Hong Kong. There is no required reporting on diamonds imported into Hong Kong and they were resold for additional profit.

## OUTLOOK

As this report illustrates, Asian traffickers use a variety of methods to move their drug profits internationally. Nevertheless, the UBS is not just another unofficial money movement method—in some areas of the world, it is the primary method. Because it is an “underground” organization, the UBS stands largely beyond the control of government legislation. Money laundering and supporting legislation (CTR and CMIR reporting requirements) will have little impact on an underground system independent of laws that are designed to regulate legitimate banks and financial institutions. In fact, these regulatory initiatives actually encourage the movement of illicit funds moving through underground systems.

With the return of Hong Kong to China in 1997, banking is expected to suffer. In all likelihood, the transition will yield temporary confusion and inefficiencies within Hong Kong’s financial system, currently the hub of Asian money movement. An increased use of Chinese UBS may follow. Legislation that precludes unlicensed businesses from offering banking services and currency transaction reporting requirements could inhibit UBS growth. However, effective enforcement of the legislation heretofore has been lacking throughout the region.

Publicity is perhaps more effective than legislative initiatives in deterring underground banking. Drug traffickers desire secrecy and anonymity in underground systems. Notoriety spawned by law enforcement investigations often is enough to drive away business from the UBS. Police disclosure of seized UBS records also could put the organization out of business.

Attacking these traditional money movement methods will require a multinational and multiagency approach. Underground banking is not considered illegal or immoral in many nations. However, by connecting transferred funds to their illicit origins, law enforcement authorities can stigmatize underground bankers who knowingly conduct transactions with drug-related proceeds. Eventually these actions may force the international banking community to police itself to a greater degree. But the problem’s ultimate solution depends on changing current attitudes towards compartmentalizing criminal activity. The facilitation of moving money to purchase drugs and the integration of drug proceeds into the legitimate economy are criminal activities as serious as drug trafficking itself.

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