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Good afternoon, Chairman Cornyn, Co-Chair Whitehouse, and distinguished members of the International Narcotics Control Committee. My name is Ray Donovan, and I would like to thank you for giving me the opportunity to testify before you today on the alarming role that Chinese Organized Crime plays in Latin America, and the influence that the People's Republic of China (PRC) and the Chinese Communist Party (CCP) have in fueling the Western Hemisphere's fentanyl and methamphetamine crisis.

I am currently the CEO of Stack21 Solutions, an investigative consulting firm that delivers trusted intelligence to manage security and regulatory risk, specifically as it pertains to anti-money laundering and anti-drug trafficking. After serving 28 years with the Drug Enforcement Administration, I retired in 2023 as Chief of Operations, the third-highest ranking official in the DEA. Prior to overseeing all enforcement operations worldwide, I served as the Special Agent in Charge for the DEA's New York Division, the administration's flagship office and central inflection point for many global, narco-terrorism cases. Prior to New York, I was the Special Agent in Charge of the DEA's Special Operations Division, the central hub for deconfliction and coordination for all counter-narcotics operations run across law enforcement, military, intelligence communities, and foreign partners. Prior to running the SOD, I led the interagency team that twice-captured the notorious leader of the Sinaloa Cartel, Chapo Guzman, by developing and executing a successful, whole-of-government approach supported by strong international partnerships.

My extensive experience as a special agent and a leader in both the DEA and the private sector has afforded me a well-rounded perspective of Chinese Organized Crime in Latin America, and the PRC and CCP's involvement in the illicit global drug trade. For decades, I have witnessed China's governing bodies systematically target our global financial networks and contribute heavily to the synthetic narcotics epidemic. By funding precursor chemical manufacturing, incentivizing fentanyl exportation, and enacting policies that aid in the success of the global drug trade, China's coordinated efforts are a strategic and aggressive interference into American democracy. Until we adjust our approach to this national security threat, this cycle of criminality will continue to tear at the social and economic fabric of American society through the abuse of our people and our banks.

To gain geopolitical influence with foreign governments in key areas of the global supply chain, the PRC and CCP fund infrastructure and systems in pivotal areas using The Belt and Road Initiative. Simultaneously, members of Chinese Organized Crime open quasi-legitimate businesses across the Western Hemisphere, to include money exchange houses, casinos, import and export companies, and mining and chemical businesses, that often serve as front companies for money laundering

operations. In Latin America specifically, the Chinese influence grew exponentially when their primary business shifted from laundering money from cocaine trafficking for Colombian cartels, to providing the synthetic, chemical precursors for methamphetamine and fentanyl production for Mexican cartels. Demand in the U.S. surged due to the unprecedented, addictive nature of these drugs, which created the opportunity for this shift to take place, and for Chinese manufacturers to position themselves as essential players in the illicit global drug trade. Synthetic narcotics production provides a clear economic advantage over traditional, plant-based materials like coca leaves or opium poppy paste, which guarantees faster, cheaper and more reliable mass production for the cartels. With the promise of larger yields with less overhead and fewer production variables, these chemicals quickly became one of the main exports out of China to the U.S., Mexico, and Canada.

In tandem with the Chinese Organized Crime's growing influence due to chemical precursor development, China's strict capital flight policies created a significant opportunity for the global illicit drug trade to flourish. These restrictions limit the amount of cash wealthy Chinese individuals and businesses can legally move outside of the country, forcing them to seek unregulated, illegal methods to acquire U.S. dollars and foreign assets. This demand is met through a black-market system of brokers and mirror transactions, where Chinese nationals purchase illicit cash, derived primarily from illicit drug sales, such as fentanyl, methamphetamine, and black-market marijuana, to purchase luxury goods, real estate, and other valuable assets. The fees paid to navigate these channels provide Chinese organized criminal groups with a consistent flow of money, and a steady mechanism to launder their profits, that would otherwise not exist without the capital flight policies. This symbiotic and toxic relationship is a classic example of supply and demand: the policies create the demand, and Chinese organized criminal groups meet the supply to secure illicit financial flows that ultimately fund and empower continued international narcotics trafficking.

International pressures for prevention and regulation have proved unsuccessful time and time again. From 2016 to as recent as last month, the PRC and CCP introduced regulatory law to monitor the production and exportation of synthetic precursors and narcotics while also incentivizing and profiting from the same chemical companies they claim to control.

According to the select committee on the strategic competition between the U.S. and the CCP,

- The PRC directly subsidizes the export of 97% of fentanyl precursors to Mexico, which are then manufactured into fentanyl and trafficked to the United States, and
- The PRC and ranking members of the CCP hold ownership interest in some of the chemical manufacturers which receive a 13% tax rebate for fentanyl exportation outside of China.

In addition, former U.S. Treasury Department Investigator John Cassara testified in a Statement to the Cullen Commission of Inquiry into Money Laundering in British Columbia, that money laundering schemes involving Chinese government officials and CCP elite members exploited a landscape where over \$3.8 trillion in capital left China from 2006 to 2016, making China quote "the world's top exporter of hot money."

What these findings prove is that the Chinese governments' lack of enforcement is intentional.

While creating the illusion of cooperation, they are tied directly to manufacturing, distributing, and profiting from 97% of synthetic narcotic precursor chemicals that are responsible for the deadliest drug epidemic in our nation's history.

It is my testimony that the PRC and CCP will respond to any pressure by continuing to enact empty laws while Chinese organized criminal groups operate in the shadows. Their stake in the global illicit drug trade is too fruitful for their economy, and in some cases their personal financial gains. To truly end the assault on American lives, our counter response must focus on one aspect that criminal organizations rely on, and cannot evade, to conduct their business: financial institutions.

For these financial institutions, it can no longer be business as usual. To combat the trillions of dollars illicitly flowing through these institutions, it is crucial to build stronger security infrastructures, increase visibility, and develop robust, proactive compliance measures. By tackling criminal finance, we can effectively eliminate not only the Chinese Organized Crime, PRC, and CCP's hold on Latin America, but also eliminate all future drug trafficking operations across the Western Hemisphere.

I have had the honor of serving in senior positions under both Republican and Democratic administrations, and I can attest that this is not a question of politics - it is a question of national security. We must all come together to combat this narcotics threat coming from well-established Chinese organized criminal groups in the Western Hemisphere, and the policies enacted by the PRC and CCP that enable the exportation of deadly chemicals, and fuel the global Chinese underground banking industry. I would like to thank Chairman Cornyn, Co-Chair Whitehouse, and the committee for the opportunity to share the information surrounding these deadly threats. I look forward to fielding any questions you may have.