Asia’s law enforcers face synthetic drug proliferation

Transcontinental express

The criminal trade in new synthetic drugs is profitable, sophisticated, dangerous, and rapidly expanding. Roderic Broadhurst examines the transnational links between organised crime groups, and the implications of the expansion of the trade for law enforcement agencies in Asia and Oceania.

Key points

- The growth of synthetic drug markets in Asia has contributed to the creation of highly profitable transcontinental routes in which networks of criminal groups trade precursors or manufactured synthetics for crop-based drugs.
- Law enforcement operations in China since 2014 have served to displace some production to Southeast Asia, but China, India, and Myanmar are likely to remain the largest producers and exporters of synthetic drugs and precursor chemicals in Asia.
- A transnational, intelligence-led law enforcement response is more likely to be capable of effectively tackling the networks of criminal groups that enable this trade, while a prohibition-based strategy risks leading to increased levels of violence in affected states.

The development of new synthetic drugs, not dependent on variable opium, cannabis, or coca crop yields, has transformed important aspects of the criminal drug trade. Producing and distributing synthetic drugs has become easier and cheaper than for traditional illicit drugs, and harder to detect. The result is an efficient, profitable, and global illicit market that has revitalised traditional crime groups and further challenged the ability of law enforcement agencies and regulatory bodies to identify and control the misuse of these drugs.

The illicit supply of drugs is a large and profitable criminal enterprise attracting venture capital and innovation. Unlike with cannabis, coca, and opium, no reliable measures of the scale of production of synthetic opiate, new or novel psychoactive substances (NPS), and amphetamine-type stimulants (ATS) are available. This is in part because, unlike crop-based production, synthetics are not easily detected by satellite and farm-gate monitoring.

However, a 2015 report by the United Nations Office on Drugs and Crime (UNODC) noted that “East and South-East Asia and Oceania has the largest ATS market in the world”. The same report noted that “the synthetic drugs market in East and South East Asia and Oceania has become increasingly diversified with the rapid emergence of a growing number of NPS”, with the number of NPS recorded in the region increasing from...
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34 in 2009 to 137 in 2014. Jane’s assesses that it is likely that synthetic drugs account for a growing proportion of the profits from illicit drugs overall.

Because NPS and ATS production do not depend on illicit crops that are geographically constrained by specific climatic conditions, these drugs can be manufactured virtually everywhere on the planet. The reduced manufacturing and distribution costs, along with the lower risk of detection, are attractive to criminal entrepreneurs. Consequently, the prices of synthetics are significantly lower than crop-based products and, as the consumer market for them is expanding, profit margins are also increasing. In simple economic terms, illicit synthetic drugs have become more attractive to both producers and consumers.

This situation has helped to create more demand for the recreational use of methamphetamine, other ATS (for example, ecstasy), and new NPS, as well as synthetic opiates. UN illicit drug user surveys and police seizures suggest that recreational drug use, especially of ATS and synthetic opiates, is on the rise, according to the UN World Drug Report 2016. Asian crime entrepreneurs have seized this opportunity to engage in an industrial-like global business, exporting precursor chemicals such as ephedrine and manufacturing illicit ATS or NPS.

Based on figures collated by Jane’s from open sources, methamphetamine retail prices per gramme vary from less than USD2 in Myanmar to USD73 in China, USD214 in the Philippines, and USD300 in Australia. According to a February 2016 report in The Sydney Morning Herald newspaper, citing law enforcement sources, the Australian wholesale cost for a kilogramme of crystal methamphetamine had fallen from AUD220,000 (USD166,600) in mid-2014 to as low as AUD95,000 by February 2016.

The wholesale price for ecstasy had also fallen from AUD65,000 to AUD37,000 over the same period, but retail prices have remained high for both types of ATS, making them more profitable and attractive for traffickers. The fall in the wholesale price invites opportunistic trafficking by smaller crime groups and the creation of ad hoc, project-driven crime networks.

China hub

Along with India, where pharmaceuticals are diverted from legitimate producers for sale on the illicit market, China is a major supplier of ephedrine and pseudo-ephedrine, the main precursors in the manufacture of ATS. In its 2013 transnational organised crime threat assessment for East Asia and the Pacific, the UNODC noted that China and Myanmar were the main producers for export of ATS in the region, but also that in China “most production is consumed domestically”, underlining the scale of production in the country. The majority of ATS produced in China come from crime groups operating clandestine methamphetamine labs in the south of the country.

Jane’s assesses that 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.

In 2015, the UNODC observed that the mass manufacture of ATS required collusion between senior-level government officials and increasingly complex and diverse forms of organised crime. A US-China Economic and Security Review Commission report released in February 2017 noted that China was a major source of black-market fentanyl and other NPS because of the weak oversight and regulation of its vast chemical and pharmaceutical industries.

The size of ATS seizures from laboratories in Guangdong suggests a large and profitable business (see table on page 44). From late 2014, these clandestine operations were targeted in campaigns by the Chinese Ministry of Public Security (MPS) and anti-corruption authorities, in part due to President Xi Jinping’s well-resourced crackdown on ‘tigers and flies’ (high- and low-ranking officials engaged in corruption). As a result of this campaign, ‘red-black’ groups (networks of criminal syndicates and party cadres) responsible for industrial-scale ATS manufacture were forced to look for safer operational environments.

This highlights the dynamic whereby operations against organised crime can produce displacement of criminal activities to jurisdictions with less effective law enforcement capabilities. The 2013 UNODC threat assessment report noted that “large labs have ... been detected in Indonesia and the Philippines”. The Philippines offered an attractive option to Chinese ‘black societies’ and its location astride the cross-Pacific trade routes offered links with other crime groups, notably in Mexico and South America.

Joint cross-border law enforcement operations that combine intelligence from source, transit, and destination countries can be highly effective in tackling this kind of criminal activity. In February 2016, Australian police seized 720 litres of liquid methamphetamine – the largest seizure in the country on record (with a street value of AUD900 million). Originally shipped from southern China, it was concealed in thousands of gel pads inserted into push-up bras, and also in art supplies. Four Chinese men – residents of Hong Kong and the mainland – were arrested.

The seizure was the product of a joint operation (Taskforce Blaze) between Chinese and Australian law enforcement agencies. In another joint operation, Australian authorities seized 90 litres of liquid methamphetamine (estimated value AUD54 million) from a vessel off Palm Beach, Sydney, and arrested eight men (including three from China, one from New Zealand, and one from Taiwan). According to official figures, 10.5 tonnes of illicit drugs and precursors were seized in the first 18 months of Taskforce Blaze operations in Australia and China.

Global networks

The Golden Triangle – the borderland covering parts of China, Laos, Myanmar, and Thailand – was traditionally the hub of the opium and heroin trade. However, production levels inferred from seizure rates suggest that the region has turned to the mass production of ATS. A thriving cross-border smuggling business operates, drawing crime entrepreneurs.

Although Chinese crime groups are engaged in large-scale ATS production and export, they are also now more active abroad and link up more readily with other crime groups.

Seizures by law enforcement agencies suggest that Mexican and South American crime cartels have worked with Chinese and African crime groups to obtain and trade cheap precursor chemicals for the ATS market while supplying cocaine and other contraband in return. There have been cases of interaction between Chinese and Mexican organised
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crime groups, for example when the 14K and Sun Yee On organised crime groups from Hong Kong supplied the Sinaloa cartel in Mexico with raw materials to produce crystal methamphetamine. The association was discovered after seizures in the eastern Guangdong city of Lufeng in 2012. In a six-week operation that was subsequently widely reported, the Mexican authorities seized approximately 900 tonnes of precursor chemicals, and a shipment of methamphetamine precursors from China was intercepted in Belize. According to reports in the local media at the time, the size of the shipment would theoretically have been enough to produce a quantity of methamphetamine worth USD10 billion.

The increasing connectivity and sophistication of these crime groups is illustrated by the ATS trade from the Golden Triangle. After production, Jane’s assesses that the drugs are typically transported to neighbouring Yunnan in China and then onwards, supplying consumers throughout East Asia, notably in Japan, Korea, and Taiwan. Small quantities of ATS ‘ice’ (methamphetamine) pills produced in northeast Myanmar are transported to markets in Bangkok, earning up to USD2,000 per run for the smuggler, according to members of the Royal Thai Police speaking to Jane’s in December 2016. Larger quantities may be diverted via Cambodia for transhipment to highly profitable overseas markets such as Australia.

Geographically, the trade is expanding rapidly. Indonesia, the Philippines, and other states in Southeast Asia rely on imported sources of precursor chemicals to produce ATS for their domestic illicit markets, or alternatively acquire ATS pills and opiates from producers in Afghanistan, China, the Golden Triangle, and South Asia.

In 2016, an industrial-scale ‘ice’ lab, operated inside a piggery by Chinese chemists and capable of producing 100 kg of methamphetamine a day, was shut down in the Philippines. The authorities arrested Chinese and Filipino nationals, underlining the transnational nature of the enterprise. The laboratory comprised several industrial distillates, a reaction mixer, and a combustion tower, according to reports in the Philippines media in September 2016.

Methamphetamine markets in Australia, Indonesia, Malaysia, and the Philippines have also encouraged local groups to engage in the importation of precursor chemicals to produce ATS locally. Speaking to Jane’s in March 2017, a member of the Philippines Drug Enforcement Agency said that the Sinaloa cartel and African and Chinese crime groups were the most active in the distribution and manufacture of synthetics in the Philippines. In December 2016, Philippine authorities arrested three Chinese nationals and seven Filipinos and seized 970 kg of solid methamphetamine and 1,097 litres of liquid methamphetamine with an estimated street value of USD120 million. The seizure was the largest in the country’s history.

India is also a major source of ephedrine, with substantial diversion of ephedrine or

<table>
<thead>
<tr>
<th>Date</th>
<th>Location</th>
<th>Drugs seized</th>
<th>Quantity</th>
<th>Destination</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2015</td>
<td>Lufeng (Boshe)</td>
<td>Methamphetamine</td>
<td>2.2 tons</td>
<td>Shanghai</td>
<td>Hidden in a piggery, industrial-scale production, and likely ‘red-black’ local crime network</td>
</tr>
<tr>
<td>May 2015</td>
<td>Yangjiang</td>
<td>Ketamine</td>
<td>1.26 tons</td>
<td>Southeast Asia and Taiwan</td>
<td>Disguised as black tea, industrial-scale production, around 2.7 tons of precursors seized, Taiwanese and Chinese citizens arrested</td>
</tr>
<tr>
<td>December 2015</td>
<td>Foshan</td>
<td>Methamphetamine, MDMA</td>
<td>317 kg</td>
<td>Unknown</td>
<td>Stored in fake luxury watches, industrial-scale production, more than a ton of ephedrine precursors seized</td>
</tr>
<tr>
<td>January 2016</td>
<td>Panyu</td>
<td>Solid methamphetamine</td>
<td>150 kg</td>
<td>Hong Kong and Taiwan</td>
<td>Hong Kong and Taiwanese citizens arrested</td>
</tr>
<tr>
<td>February 2016</td>
<td>Dongguan</td>
<td>Solid methamphetamine</td>
<td>700 kg</td>
<td>Philippines</td>
<td>Seized in Dongguan, origin unknown</td>
</tr>
<tr>
<td>September 2016</td>
<td>Panyu</td>
<td>Solid and liquid methamphetamine</td>
<td>1.1 tons</td>
<td>Hong Kong</td>
<td>Probably for shipment onwards to Australia and New Zealand</td>
</tr>
<tr>
<td>October 2016</td>
<td>Jieyang city</td>
<td>Solid and liquid methamphetamine</td>
<td>0.9 tons</td>
<td>Hong Kong</td>
<td>Probably for shipment onwards to Australia and New Zealand</td>
</tr>
</tbody>
</table>

Note: All seizure details, including quantities, as cited by the authorities or local and international media
Source: IHS Markit

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pseudo-ephedrine and other pharmaceuticals from legitimate producers. For example, in April 2016, 18.5 tonnes of ephedrine, diverted from a chemical manufacturer in Thane and bound for Eastern Europe, were seized in Mumbai. In another case, in August 2016, 269 kg of ketamine were seized from a chemical plant near Johor Baru in Malaysia and 19 chemists were detained by police.

Law enforcement response
The entrepreneurial, cross-border nature of the trade in synthetic drugs makes it challenging for law enforcement agencies to tackle effectively. Although high-profile seizures may help to estimate the size of the production, they probably have little effect on the overall health of the trade itself. Efforts to strengthen the monitoring of, and regulatory controls over, precursor chemicals are more likely to reduce the impact of these drugs.

The pharmaceutical industries of China and India are substantial producers supplying domestic medicine markets and are poorly monitored. China’s rapid awakening to the high costs of fake and often dangerous products and the societal perils of crystal methamphetamine is likely to lead to better regulation that has the potential to affect the forms and scale of organised crime.

Similarly, the Chinese MPS increasingly reaches out to foreign police services seeking mutual legal assistance arrangements or joint operations on matters as diverse as the pursuit of fugitives (for example, operations such as Fox Hunt, SkyNet, and Taskforce Blaze), joint patrols of border regions (as in the upper reaches of the Mekong), or in controlled operations involving drug shipments (as in the joint Australia-China task force tracking liquid amphetamine).

Co-ordinated action to suppress the export of precursor chemicals across the region, if it could be achieved, would be likely to have an impact on supply. Similarly, improved regulatory and export tracking controls on these precursors within China itself would have an impact, but would also have the potential to be undermined by corruption.

Outlook
The growth of the cross-Pacific trade in eastbound synthetic drugs and westbound cocaine is likely to continue, despite increasing attention by law enforcement agencies, driven by demand for cocaine and new ‘designer’ drugs among Asia’s growing middle class. The profits that can be made as a result will continue to attract a wide range of organised crime groups, and these in turn are likely to seek to invest their profits through expansion into new markets. Among the countries most at risk are those in the grip of conflict such as the Philippines, and some of the small Pacific Islands, which offer attractive transit routes due to their position and limited law enforcement capabilities. The Chinese MPS and various US law enforcement agencies are likely to be crucial in attempts to reduce supply and will increasingly partner with the handful of law enforcement agencies (for example, those in Australia, Japan, New Zealand, Singapore, South Korea, and Taiwan) capable of acting effectively on this cross-Pacific illicit trade.

More broadly, law enforcement agencies and governments in Asia will have to consider some of the lessons that can be learned from the drug-related conflicts that have affected Colombia and Mexico. There is a risk that an approach centred on the prohibition of illicit drugs, and the attempted elimination of the trade, will lead to the displacement of crime into jurisdictions less able to tackle the threat.

More significantly, there is the risk of conflict emerging between the state and strategically powerful criminal groups able to suborn law enforcement agencies and elected officials. Such a scenario – if it played out in the Philippines, for instance – would carry significant risks of violent crime and even open conflict between organised crime groups and local authorities in affected areas.

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