



Contingency Management Services. Inc.

1730 K St., NW, Suite 1100
Washington, DC 20006
202 463-8811; Fax 202 463-8238
E-mail: bado@erols.com

A SPECIAL CMS REPORT:

SMUGGLING AND SECURITY IN THE INDOCHINA REGION

Prepared by Ed Badolato, President of CMS, Inc., June 29, 2000

This report is a summary of the discussions that took place in a focus group that was conducted on *Smuggling and Security in the Indochina Region*. Participants included industry representatives, government (law enforcement, military and intelligence) and officials from the representative foreign embassies in Washington.

The areas discussed included, Thailand, Burma, Cambodia, Laos and Vietnam. This summary report contains some of the main conclusions developed during the discussions and a brief county by country overview.

Conclusions and Findings:

1. *Burma and Laos are major drug producing countries*, and Thailand and Cambodia are major drugs transshipment countries. There is fewer drugs trafficking in Vietnam, but significant smuggling problems. The volume of drugs shipped to the US from this region makes it a major concern for the US.
2. *Profits from the region's extensive drug trade is used to fund other illegal transportation-related activities*, such as cargo theft, smuggling (arms, aliens, contraband), support for terrorists, fraud, money laundering, piracy, and product diversion.
3. *Cargo theft is a major problem in the region*. Drug gangs attempt to smuggle drug shipments in cargo containers, trucks, and package shipments. These syndicates have infiltrated most port and airport operations. The companies involved and the respective governments are not taking minimum security measures to ensure the safe and secure movement of cargo, such as increasing use of background checks on cargo handling personnel, security staff oversight on enroute shipments, immediate law enforcement response to incidents of theft, and tightening the registration process for trucking companies and drivers. It is nearly impossible to determine exactly how much cargo is stolen in the region, but it is considerable.
4. *Smuggling has historically been a traditional occupation in the region*. Arms are a major smuggling commodity, and the huge stockpiles of post war arms in Vietnam, Cambodia and Laos have been finding their way to ready buyers around the world. The current regional arms market involves newly manufactured weapons, such as AK-47 automatic rifles, anti-tank

rockets and surface-to-air missiles, purchased from (or in business with) China-based gangs and transported through Southern China to the region. Regional arms recipients include separatists and terrorists, such as the Tamil Tigers in Sri Lanka, the Aceh Merdeka pro-independence movement in Indonesia, and the MLIF and Abu Sayyef Islamic terrorist groups in the Philippines.

5. *Alien smuggling is a very profitable regional business.* It is estimated that the Triads have currently stashed 30,000 Chinese, seeking eventual illegal entry into the US or the UK in Burma's second largest city, Mandalay. A whole supporting economy of transportation-related criminal activities exist in the region. For example, huge numbers of fraudulent, but very well done, travel documents are prepared for the aliens. The experts who make these near perfect copies are also adept at fraudulent Bills of Lading, Bank Letters of Credit, etc.
6. *Contraband smuggling involves cigarettes, sugar, cars, pharmaceuticals, foreign currencies electrical appliances, computers and components, food, and cosmetics.* Overall efforts to curb smuggling have not been very successful. In most of the countries in the region, customs and law enforcement are involved in the overall corruption that pervades transportation and cross border shipments.
7. *Piracy in the region has doubled over the last several years,* with skilled pirate groups "outsourcing" themselves to top syndicate leaders and unscrupulous government officials to "steal to order" previously identified ships and cargoes. In a number of cases, an entire ship is stolen and reregistered under false papers. The pirates also use an innovative fraud scheme to pose as legitimate ship owner/operators to pick up cargo from unsuspecting shippers--but never to be seen again once the ship leaves port.
8. *Product diversion, especially of pharmaceuticals is a common problem.* The region, especially along the Burma-Thai border is a major amphetamine-producing source for the world market. The large numbers of labs, skilled technicians, and illegal shipping operations provide a perfect conduit for diverted pharmaceuticals. In fact, the criminals also practice diversion/dilution among themselves. For example, one group has been known to purchase high quality pills from a manufacturer/importer, then crush the pills, mix the contents with talc or some other benign substance, and sell the drugs on the market as discounted knock offs.
9. *The major transportation crime activities throughout the region are thought to be connected directly or indirectly to the Peoples Republic of China.* There are the loosely organized Chinese criminal gangs, called "Triads," who are at the core of much of the region's lucrative criminal activity. Next, transportation crime also involves the ethnic Chinese who live in large numbers in the region, and who have traditionally made up the business and entrepreneurial classes. This provides them with the positions and wherewithal to take advantage of the transportation network. Finally, transportation crime supplements the income of Chinese government officials, police, customs, and the Chinese military that are involved in much of the illegal transportation and smuggling activities from their southern ports and borders.
10. *The major transportation hub for the region is Thailand,* and its transportation infrastructure that dwarfs the other nation's capabilities. For example, Bangkok Airport has 600 flights per day, compared to Phnom Penh's 20. Thailand is also the region's leader in seaport and overland transportation.

A COUNTRY BY COUNTRY OVERVIEW.

1. BURMA

Even though the level of violent crime and property crimes against the population are generally low, Burma is the world's second largest source of illicit opium and heroin, with Burmese production exceeded only by that of Afghanistan. Burma currently accounts for approximately 80 percent of the total production of Southeast Asian opium. This drug production earns considerable cash, but the Government of Burma does little if anything against money laundering or the funneling of this money into "front" businesses for other transportation-related frauds and crime.

Burmese soldiers have been posted across the border from northern Thailand to handle rebellion by ethnic minorities and control minority communities such as the Wa, who are known to be deeply involved in the drug trade. However, these troops have been ordered by Rangoon to "live off the land," an order implying permission to become involved in the drug and contraband smuggling trade--a situation that does not build confidence in the cross border security of shipments.

The Burmese government currently lacks the expertise to deal with money laundering and other transportation-related financial crimes. Because of the large drug trade, money laundering is carried out on a massive scale. This lack of an enforcement effort against money laundering encourages the movement of drug proceeds into legitimate business ventures by traffickers and former traffickers. Businesses owned by family members of former or present traffickers have invested heavily in transportation infrastructure projects, such as roads and port facilities, as well as shipping companies.

2. CAMBODIA

1999 saw the establishment of peace and political stability throughout all regions of Cambodia after more than 30 years of warfare, but crime and banditry still persist in many areas. For all intents and purposes, Cambodia is a welfare state whose official economy is largely dependent on the UN. The decline of the economy has also contributed to a dramatic increase in smuggling and other transportation-related crime.

Cambodia is a major transit route for Southeast Asian heroin to overseas markets, including the U.S. The huge profit made by the new regional players in the production and distribution of drugs such as heroin and amphetamines is providing the seed capital for various other smuggling operations in Cambodia.

For example, Thai syndicates with corrupt military links are using new sea smuggling routes out of Cambodia for their growing illegal arms trade. Although Thai nationals front these syndicate operations, ethnic Chinese in Thailand controls them. The ethnic Chinese use their contacts in southern China and Vietnam, as well as Cambodia, to smuggle and sell goods and weapons.

It is estimated that about 80 per cent of the arms now being smuggled out of Sihanoukville, including automatic rifles and surface-to-air missiles, go by ship, and this smuggling is controlled by corrupt military officers.

For many years, land routes were favored to move used weapons from Cambodia to regional ethnic minority customers, such as the Karen National Union that was fighting the central government in Burma. Now the Cambodian weapons smuggling trade has been upgraded to sell new weapons, mainly from China. Criminal gangs in southern China are the major source of these new weapons for the Cambodian smugglers. Inefficiency and corruption in the police and customs service makes Cambodia ideal for transshipment of weapons, drugs and other stolen goods. Another factor is the presence of extensive money laundering operations, alien smuggling, and counterfeiting.

Aceh at the northern end of the Indonesian Island of Sumatra and its Aceh Merdeka pro-independence rebels, is one of Cambodia's growing new markets for the arms trade. The Indonesian military has employed its Marines in the coastal waters off Aceh in an attempt to intercept vessels carrying weapons, but US sanctions have limited effectiveness of the interdiction effort.

AK-47 and M-16 assault rifles smuggled into Aceh were also sent via southern Thai ports by vessels owned by senior Thai naval and army officers. These vessels have also been alleged to have carried weapons to Tamil Tiger insurgents in Sri Lanka and the Muslim insurgents in the Southern Philippines. The smuggling is difficult to stop because the companies that operate the vessels are often "fronts" linked to corrupt elements in the Thai military and customs service.

The regional arms smuggling business is so good that smugglers in southern Vietnam have also joined the arms trade.

One should not expect any official help with transportation crime situation in Cambodia as their law enforcement agencies have very few resources and generally lack even basic training in law enforcement.

LAOS

While Laos generally has a low rate of personal crime, it is a major drug-producing country. Laos is the world's third largest producer of illicit opium, trailing only Afghanistan and Burma. Because of its location next to one of the world's largest producers of opium and heroin (Burma), and its land borders with countries that combine important opium markets and trade routes to Europe and America (China, Thailand, Vietnam, and Cambodia), Laos is a key route for the smuggling of drugs and other illegal shipments.

Given Laos' poverty and the very low salaries of Lao government employees, it is a given that officials and military personnel are very susceptible to bribes from illicit drug traffickers and smugglers.

THAILAND

Thailand is the US largest trading partner in the region, and appears on the way to making an economic recovery from the crisis of 1997-98. Before the crisis, Thailand was the United States' twentieth largest export market, with an annual market worth more than US\$7 billion. The US is still Thailand's second largest investor, after Japan, with a total accumulated direct investment value of over US\$15 billion

Pirates, bandits, and drug traffickers operate freely in Thailand's border areas. Good roads in northern Thailand connect drug refineries in Burma with the remainder of Thailand's excellent transportation system. Thailand's position as a regional airline hub and its major modern port facilities are also important. Thailand is a major drug transit country, and traffickers are constantly attempting to move significant amounts of heroin into the US.

Yet, Thailand's overall importance as a contraband transit country for illegal goods has diminished somewhat as smugglers developed new bypass routes for their operations. Traffickers have diversified their smuggling operations to include direct maritime transshipment from Burma to regional container ports. The trade in arms, precursor chemicals and other supplies into Burma, and the outflow of drugs from that country has changed over the past several years to run through China, Laos, and Vietnam.

Official Thai government cooperation in anti-smuggling operations is considered to be outstanding and the relationship between US law enforcement officials and their Thai counterparts is said to be at a comparable level to that which we experience with the Canada and Mexico.

VIETNAM

Smuggling and trade fraud is so bad in Vietnam that top government officials have frequently made public appeals to the public to join the anti-smuggling fight.

The main smuggled goods in Vietnam include cigarettes, sugar, used clothes, cars, motorcycles, drugs, foreign currencies and precious gems, plastic and electrical appliances and building materials. More than 110,000 cases of smuggling and trade fraud were uncovered in 1999 including confectionery, cosmetics, pharmaceuticals, cement and food. The government has created a Central Steering Board for Fighting Smugglers and Trade Frauds to identify the key centers of smuggling activity, trafficking groups and the goods being smuggled, but their efforts have not been very successful

It is extremely difficult to work with Vietnamese security officials. The US Embassy reports that security personnel may at times place foreign visitors under surveillance. Hotel rooms, telephones and fax machines may be monitored, and personal possessions in hotel rooms may be searched. Performing cargo theft investigations can be difficult. For example, taking photographs of anything that could be perceived as being of military or security interest can result in severe problems with the authorities. Foreign visitors to Vietnam have been arbitrarily arrested, detained or expelled for activities that would not be considered crimes in the U.S.

Vietnam is a drug-producing country. Opium is grown in some of Vietnam's northern provinces. Vietnam is also a drug transit country. Typical of the changing drug scene, synthetic drugs (amphetamine-type stimulants) and psychotropic drugs manufactured in China and Burma have been entering Vietnam through its borders with China and Laos.

Vietnam has attempted to strengthen coordination among the police, customs, and border-guard forces. Vietnamese police and security agencies hold regular coordination meetings with their Lao counterparts. However, corruption is a serious problem in Vietnam's Department of Customs, all the way from the Director General to low-level personnel,

Ed Badolato, has over 30 years of broad experience in various areas of transportation security--air, truck/rail, maritime and pipeline operations--both overseas and internationally. Among his various current activities, he is involved in assisting several Southeast Asia companies and organizations with transportation security. He was a Deputy Assistant Secretary of Energy for Presidents Reagan and Bush. He has served as Chairman of the FAA's Air Cargo Security Working Group, and is a member of the National Cargo Security Council, having been its Chairman from 1995-2000. He is on the Board of Directors of the US-Mexico Chamber of Commerce. He presently serves as Executive Director of the International Association of Counterterrorism and Security Professionals, and is also a member of ASIS. He is a well-known speaker and writer of over 200 articles on transportation security, and he has frequently appeared on PBS's Newshour with Jim Lehrer, Nightline, CNN, and other network news programs. He is a retired Marine Colonel and can be contacted at 202 463-8811, email bado@erols.com.

