

Jonathan Manthorpe has been a foreign correspondent and international affairs columnist for nearly 40 years. Manthorpe's nomadic career began in the late 1970s as European Bureau Chief for The Toronto Star. In the mid-1980s Manthorpe became European Correspondent for Southam News. In the following years Manthorpe was sent by Southam News, the internal news agency for Canada's largest group of metropolitan daily newspapers, to be the correspondent in Africa, based in Zimbabwe, and then Asia, based in Hong Kong. Between postings Manthorpe spent a few years based in Ottawa focusing on intelligence and military affairs, and the United Nations.

Manthorpe was based in Vancouver from 1998, but travelled frequently on assignment to Asia, Europe and Latin America. In 2013 Manthorpe left what is now the Postmedia group and moved with his wife, Petrina, to Victoria. He now works as a freelance international affairs columnist and commentator with regular columns on Asia-Pacific in the newspaper Business in Vancouver and weekly international affairs columns on the web sites Facts and Opinions and iPolitics.

While print journalism has been the binding thread of Manthorpe's career, he has been involved in many associated international endeavours. In the early 1980s Manthorpe was a special adviser in London to the government of Prime Minister Pierre Trudeau on "patriation" of Canada's constitution. Most recently he spent three years as a member of the Canada-Japan Forum, a small committee advising the prime ministers of the two countries on how to enhance bilateral relations. Manthorpe has also undertaken special projects for the United Nations, the World Bank, the Asia Development Bank, the Canadian International Development Agency, and several non-government organisations.

Journey to the West

The Flight of Money out of China.

By Jonathan Manthorpe

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Background

- Since China's former Paramount leader Deng Xiaoping launched a form of marketplace economy 35 years ago, China has risen from being one of the globe's poorest countries to the world's second largest economy.
- But at the same time, and especially in the last 15 years, large amounts of the newly created wealth have been flooding out of China.

This raises three big questions

- How much money is being spirited out of China illegally?
- Why are China's wealthy hiding their money abroad?
- How are they getting their money past China's strict currency controls?

How much money is fleeing China?

- Five years ago the People's Bank of China estimated \$130 billion had left since the mid-1990s.
- In 2013 The Wall Street Journal reckoned that in the year to the end of September, 2012, \$225 billion had been exported illegally.

- A recent estimate by WealthInsight is that wealthy Chinese have \$670 billion stashed overseas.
- Boston Consulting Group puts that figure total at \$450 billion.
- Global Financial Integrity says in 2012 just under \$250 billion fled China and \$1.25 trillion over the previous decade.
- PBoC figures for the first quarter of 2015 show illegal outflow of \$80 billion, or an expected \$320 billion this year.

- Bain Consulting Group study found half “wealthy Chinese” had investments overseas.
- Another study said China’s wealthy like to keep 13% of their assets abroad.
- But bankers dealing with wealthy Chinese say it is closer to 40% and usually more.

- Wealthy Chinese also seek to emigrate or acquire a second passport.
- A 2012 study by consulting group Hunrun, working with the PBoC, found 60% of millionaires and billionaires are in the process of emigrating.
- A study published, briefly, last week by the People's Daily newspaper found over half of wealthy Chinese plan to emigrate.

Why are wealthy Chinese getting their money and themselves out of the country?

- They are the political and business elite who have benefited most from the economic revolution.
- They are either senior members of the ruling Communist Party or close to them through family or business ties.
- They ought to feel most secure.

- But, with the adoption of market economics the Communist Party has lost ideological legitimacy.
- It's right to rule now rests on continued economic growth and improvements in living standards.
- Economic reform has also created a new aristocracy, the widely despised Red Nobility.
- But there is no rule of law or other checks and balances to control this aristocracy.

- There can be little more economic reform without political reform.
- But the new President, Xi Jinping is set against the introducing the rule of law, or diminishing the Communist one party state.
- He is counting on sustaining the economy at a “new normal” of low growth.
- Xi is also increasing repression of dissidents and ever more vigorous censorship.
- China looks strong, but authoritarian states are brittle.

China's unsustainable social contract.

- Much of the wealth created in the last three decades is in the hands of a few families attached to the Communist Party.
- In some economic sectors, Red Nobility families have monopolies, like Russian oligarchs.
- The “Gini Coefficient” of inequity has been in the danger zone for years.

- There is much social unrest.
- Official numbers show 180,000 “mass incidents” a year.
- That’s just under 500 violent protests every day on average.
- Protests usually stem from abuse of power by party officials or their cronies.
- A common cause is theft of peasants’ land for development.
- A growing number of demonstrations are against unacceptable working conditions.

- Lethal pollution of air, land and water is an increasingly significant cause of unrest.
- Most underground aquifers, supplying 70% of China's drinking water, are polluted.
- The water in 75% of China's rivers is unsuitable for drinking or fishing.
- 30% of China's river water is too polluted to be used for agriculture or industry.
- Nearly 700 million Chinese drink water contaminated by human or animal waste.
- Up to a million people a year die of air pollution.

Accession of President Xi heightens stability concerns.

- Xi has destroyed consensus politics adopted after ravages of the Mao Zedong era.
- Xi is using his anti-corruption campaign to purge opponents in the party and the military.
- In this climate of insecurity, even very senior party officials are forging links abroad.

How is money being slipped out of China?

- The most trusted route is through family members abroad and has been used for hundreds of years.
- The largest volume now is through business networks.
- The most common way to get permission to send money overseas is through false invoicing.

- This may be through inflated expenses for overseas subsidiaries.
- It can be by asking for inflated bills for goods or services from foreign partners.
- Foreign partners are asked to safeguard the difference between the agreed price and the billed price.
- There are also complicated systems of export, re-import and re-export of manufacturing components.

- Hoarding assets overseas is easiest and safest for senior members of the Communist Party.
- The International Consortium of Investigative Journalists recently received files on tens of thousands of people with accounts in tax havens.
- Among them are 22,000 people from China and Hong Kong.
- The list includes close relatives of top Communist Party officials.

- A route that receives much public attention is through the casinos of the former Portuguese colony of Macau.
- Macau remains a separate administrative region of China and currency restrictions for mainlanders apply.
- But the volume of gambling in Macau is now seven times that of Las Vegas.
- It is relatively simple for mainlanders to get a line of credit in Macau casinos, usually through triads.

- Macau's casinos have no serious barriers to money laundering.
- Macau has many banks that specialize in moving money around the world quickly and invisibly.
- Hong Kong, a free port with skilled bankers, is only an hour away by high-speed ferry, half an hour by helicopter.

- The 2002 introduction of the China UnionPay credit card has greatly aided cash flight.
- There are now 3.53 billion UnionPay cards in circulation.
- Many retailers in Asia outside China give large cash advances on the cards and false purchase receipts.
- It is likely this is happening in Canada too.
- The PBoC is aware of the problem, but unwilling to crack down.

- For individual Chinese coming to Canada, a suitcase of cash is least problematic.
- They may have to bribe Chinese customs officials, but that is normal with all officialdom.
- Canada requires all visitors to declare money with them over \$10,000.
- Unless there is good reason to think the money is the proceeds of crime, they will probably be allowed to bring in more.
- And fines for failing to declare are minimal.

- While there is political uncertainty in China, the wealthy will continue to stash their assets abroad.
- The first step for Canada, I would submit, is to know what exactly is going on, and its implications for our country and institutions.
- Only then can the public and political leaders make informed decisions about what, if anything, can and should be done.