Great Power Competition and Counternarcotics in the Western Hemisphere

By Chloe Gilroy
Cover photo caption: Fentanyl is hundreds of time more lethal than heroin and other synthetic opioids. Only two milligrams – the amount shown next to this coin – is enough to be a lethal dose.

Photo credit: U.S. Customs and Border Protection (CBP)

Disclaimer: The views expressed in this paper are those of the author and are not an official policy nor position of the National Defense University, the Department of Defense nor the U.S. Government.

About the author: Chloe Gilroy is a researcher specializing in security issues in Latin America and the Caribbean including counternarcotics, organized crime, and migration. She is a graduate of the Master of Science in Foreign Service program at Georgetown University and has previously worked as a fellow at the Washington Office on Latin America and the Center for International Policy.

Editors: Pat Paterson
Layout Design: Viviana Edwards
Great Power Competition and Counternarcotics in the Western Hemisphere

By Chloe Gilroy
Great Power Competition and Counter Narcotics in the Western Hemisphere

By Chloe Gilroy

Introduction
The nexus between illicit drug economies and great power competition is a critical, yet understudied, dimension of counternarcotics. If policy experts and academics understood how great power competition intersects with illicit drug economies, then counternarcotics experts would have yet another incisive theoretical lens through which to understand drug flows. This paper contends that China is unwilling to crack down on chemical precursor flows that feed the Western Hemisphere’s synthetic drug trade due to its broader geopolitical imperatives, which are shaped by great power competition.

Chinese pharmaceutical and chemical producers are taking advantage of un-checked drug demand in the United States by selling chemical precursors to Mexican drug trafficking organizations that manufacture and smuggle synthetic drugs across the U.S.-Mexico border. Their involvement in the Western Hemisphere drug trade has expanded the market for synthetic drugs and has destabilized Mexico’s criminal landscape. The Chinese government’s response to the export of massive quantities of illegal drugs and precursor chemicals is largely driven by external pressure and characterized by a lack of credible commitment to reduce the flow of illegal drugs and precursor chemicals.

This paper will start by delving into the existing literature on great power competition and illicit drug economies before exploring China’s approach to drug control. It will then dissect trafficking patterns in two synthetic drugs, methamphetamine and fentanyl. After that, it will explain how Beijing’s incentives in the pharmaceutical and chemical sectors impact methamphetamine and fentanyl export volumes. This paper will conclude by comparing time series data on methamphetamine and fentanyl seizures at the U.S.-Mexico border with the progression of China’s enforcement efforts.

Literature Review
Great Power Competition, Malign Actors, and Illicit Economies

Absent from strategy reports and academic literature that address great power competition in Latin America and the Caribbean is a critical examination of how China and Russia interact with the
region’s illicit drug economies, which net an estimated $150 billion annually.1 By excluding illicit drugs from the realm of great power competition, academics and policymakers have unnecessarily limited the scope of this valuable theoretical lens. Although there is an emerging body of literature that explores how China’s approach to drug control aligns with its economic and political interests, no explicit connection is made to regional great power competition.

The concept of great power competition emerged from realist assumptions about states and describes the behavior of powerful states that seek to balance against one another in order to achieve military and/or economic primacy within an anarchic system. To be considered a great power, a state must reach certain benchmarks related to “size of population and territory, resource endowment, economic capability, military strength, political stability and competence.”2 For great power competition to take place, some theorists posit that multipolarity, a general disregard for rules-based constraints, and political-military rivalry need persist.3 Great power competition has occurred intermittently over the past five centuries,4 and was the driving force behind U.S. and Russian intervention in Latin America and the Caribbean for much of the Cold War era. Some theorists believe that this particular pattern of behavior ended following the collapse of the Soviet Union, which marked the beginning of a more liberal world order led by the United States as the world’s sole hegemonic power.

Although there is extensive debate among scholars and theorists as to whether our current world order is engulfed in great power competition, there is no doubt on the part of the Trump administration that both China and Russia engage in this distinct form of geo-political posturing. In the 2017 National Security Strategy, the Trump administration stated that China and Russia “challenge American power, influence, and interests, attempting to erode American security and prosperity.”5 The 2018 National Defense Strategy also mentions great power competition:

Long-term strategic competitions with China and Russia are the principal priorities for the Department, and require both increased and sustained investment, because of the magnitude of the threats they pose to U.S. security and prosperity today, and the potential for those threats to increase in the future.6

---

4 Ibid.
The quotes above demonstrate the salience and predominance of this theoretical lens within the country’s national security establishment, irrespective of whether the necessary pre-conditions for great power competition are actually present in the current international system. Both strategies point to China’s economic and military expansion within the Indo-Pacific as forms of coercive leverage that is being wielded to displace the United States from its traditional spheres of influence. Similarly, they both refer to Russia’s use of cyber-technology and military expansion as a means for the country to re-claim its great power status and increase its sphere of influence within neighboring countries.

Given the emphasis on great power competition by the current administration, it is unsurprising that the Department of Defense has chosen to interpret Chinese and Russian activity in Latin America and the Caribbean through this lens. Admiral Craig Faller, commander of U.S. Southern Command (SOUTHCOM), testified before the House Armed Services Committee that the Western Hemisphere’s strategic environment is a critical forum for competition with China and Russia and that his command is reforming its military exercises in the region to support competition with both powers.7

The commander of U.S. Northern Command (NORTHCOM), General Terrance O’Shaughnessy struck a similar cord in his testimony by declaring that “the strategic threat to the homeland has entered a new era” where China and Russia are seeking to use their respective capabilities to decrease American competitiveness and maneuverability.8 The regional domains for great power competition are in the economic and military spheres. Within the economic sphere, China is using predatory loans to undermine sovereignty and good governance.9 Competition within the military sphere emanates from China’s increasing level of access to critical infrastructure across the region and Russia’s military support to Cuba, Venezuela, and Nicaragua.10

Neither NORTHCOM’s nor SOUTHCOM’s strategy reports mention that fact that Chinese pharmaceutical and chemical manufacturers provide the region with a prolific supply of fentanyl, fentanyl precursor chemicals, and methamphetamine precursor chemicals. Both reports place China’s economic activity in the region under intense scrutiny yet fail to address the country’s involvement in the region’s illicit drug economies. From a strategic standpoint, there is a division between the activities carried out by narcotics traffickers and transnational criminal organizations and the economic and military activities carried out by the great powers, which serves to obscure the reach of Chinese economic activity in the region. This division fails to account for two realities: 1) states interact with illicit economies for political and economic reasons and 2) there are states, many of which are in the region, that do not maintain a monopoly on force in areas where high volumes of illicit goods are produced and trafficked.

---

10 Ibid.
The following section provides an overview of Chinese drug control along with its different ideological strains in order to shed light on the country’s approach to illicit drug economies.

Great Power Competition and Chinese Drug Control

Many scholars interpret China’s forceful approach to domestic and international drug control as rooted in the country’s defeat during the Opium Wars, which took place during the second half of the 19th century and remain a source of national shame and outrage.\(^1\) China’s defeat to Western powers in two back-to-back wars allowed domestic opium consumption to skyrocket, and by “1906, China was producing 85 percent of the world’s opium, some 35,000 tons, and more than a quarter of its adult male population regularly used opium.”\(^2\) Western Powers also forced the country to adopt free trade, and

\(^1\) See for example Zhang and Chin (2016), Ryan Clarke (2008), and Tibke (2017).

Photo caption: U.S. Customs and Border Protection (CBP) inspected a vehicle in Escondido, California and found over a half million dollars of cocaine and fentanyl hidden in the back of a car seat. One of the wrapped packages contained 5.3 pounds of fentanyl, the equivalent of 1,200,000 lethal doses of fentanyl.

Photo credit: U.S. Customs and Border Protection (CBP)
created a dependence on foreign goods that was so strong it nearly destroyed the country’s domestic economy.\textsuperscript{13} Following the Chinese Communist Party’s (CCP) military victory and subsequent rise to power, Chairman Mao Zedong began his “drug-free” campaign, and took swift action to wipe out drug consumption, production, and trafficking.\textsuperscript{14}

Chairman Mao’s approach to drug control in the post-1949 period involved a combination of public campaigns, punitive forms of social control, and supply reduction.\textsuperscript{15} The newly formed People’s Republic of China (PRC) was able to collapse the country’s opium trade in part because of mass public mobilization behind the new government’s drug control efforts. The Communist government hinged their drug control efforts on the creation of a new, hyper-nationalistic identity that broke from the “sick man of Asia” image that the country had acquired in the aftermath of the Opium Wars.\textsuperscript{16} It also wrapped its efforts into its nascent state-building project and made it so that “contributing to the success of the campaigns was regarded as being patriotic.”\textsuperscript{17}

Some scholars believe that China’s current approach is guided by the same political and social undercurrents that emerged during this period and that the government continues to see the drug trade “as major threat to national security, the economy, as well as national and regional stability.”\textsuperscript{18} In their analysis of China’s current drug control efforts, Sheldon Zhang and Ko-lin Chin point to the government’s reliance on propaganda campaigns that invoke the shame and humiliation of the Opium Wars to mobilize the Chinese people behind repressive forms of social control, such as using the death penalty for trafficking offenses and forced rehabilitation work camps, as proof of continuity within the country’s strategy to target illicit drugs.\textsuperscript{19}

While a number of scholars acknowledge the power of cultural shame felt following the Opium Wars as an early driving force in Chinese drug control, there are some that break with Zhan and Chin’s analysis by pointing to a gradual de-prioritization of drug control starting in the 1980’s. Under Deng Xiaoping, the Chinese government introduced economic reforms allowing for the de-collectivization of agriculture, small-scale private entrepreneurship, greater autonomy for established enterprises, foreign trade rights, and the lowering or outright removal of tariff and non-tariff barriers.\textsuperscript{20} Economic development and ascension onto the world stage were now the country’s primary focus, replacing drug control


\textsuperscript{15} Ibid, 84.

\textsuperscript{16} Ibid, 92.

\textsuperscript{17} Ibid, 93.


as the strategic area of foremost concern. This helps explain the government’s lack of effective action to crack down on burgeoning levels of consumption and trafficking that accompanied the easing of trade restrictions. China’s 2.5 million registered drug addicts are predominately young, unemployed males without higher education. Although still considered a grave social problem, “drugs do not represent the most acute social problem or conflict that deserves the sacrifice of other political, economic, and social goals.”

The government’s willingness, particularly at the state and local level, to subordinate drug control to other economic and political imperatives is particularly pronounced when it comes to the chemical precursor industry. As part of its 1980s reform push, the central government reformed its fiscal system to provide local governments a greater share of revenue in order to help advance growth. These fiscal reforms had the effect of linking economic development with political promotion and has created...

---

Photo caption: The extremely lethal fentanyl is often mixed with other drugs such as heroin or methamphetamine. This photo shows a stash of fentanyl and methamphetamine seized at the U.S. and Mexico border in January 2019.

Photo credit: Associated Press

---

22 Ibid, 2.
warped regulatory incentives for local officials. This has created a system whereby officials show out-
ward support for chemical precursor control policies handed down by the central government while at
the same time allowing chemical companies that “have committed unit crimes” to continue operating.26

China’s involvement in Myanmar’s drug economy is illustrative of how the government’s geo-
political considerations drive its approach to international drug control. China is the main source of
methamphetamine precursors to Myanmar’s Shan State - a global center for illegal drug production.27
According to China’s National Narcotics lab, Myanmar produces 95.2 percent of methamphetamine
seized by the country’s police.28 Although in the past China has been eager to help Myanmar curb drug
production and transshipment, there have “been almost no precursor seizures at the border” which indi-
cates that “traffickers can move them freely across national boundaries.”29 The free flow of precursors
is also occurring amidst a rise in synthetic drug addiction rates in China.30

The Chinese government’s lack of effective drug enforcement reveals the delicate balancing act
that it is attempting to strike in the Indo-Pacific region. The maintenance of Shan State’s illicit drug
economy, which now dwarfs the size of its formal economy, and the continued export of precursor
chemicals out of Yunnan Province benefit China by supporting local-level growth in the cross-border
region.31 Growth within Yunnan Province is vital to helping China capitalize on the China-Myanmar
Economic Corridor (CMEC), which includes high-speed rail that runs from the capital of Yunnan up
through Shan State to a port on the Indian Ocean, effectively opening up the province’s land-locked
economy. If successful, the CMEC will “pull Myanmar, and Shan State in particular, even further into
China’s economic and political orbit.”32 Access to Myanmar’s ports and waterways would help China
advance its economic and strategic edge against the United State in the Indo-Pacific and feeds directly
into regional great power competition.

Given the above case study, regional studies would be remiss to preclude a state’s interaction with
illicit drug economies from its understanding of great power competition. As such, this paper seeks to
avoid this same pitfall by asking the following question: how is China’s approach to international drug
control in the Western Hemisphere influenced by great power competition?

The answer to this question not only helps correct the lack of theoretical focus that great power
competition places on illicit economies. It also helps elucidate the role that the Chinese government
plays in facilitating synthetic drugs flows and can help inform the United States’ approach to inter-

---

26 Ibid.
27 “Fire and Ice: Conflict and Drugs in Myanmar’s Shan State” (Brussels, Belgium: International Crisis Group, January 8,
state.
29 “Fire and Ice: Conflict and Drugs in Myanmar’s Shan State,” 9 ; Felbab-Brown, Vanda, “Myanmar Maneuvers: How
to Break Political-Criminal Alliances in Contexts of Transition,” Crime-Conflict Nexus Series (United Nations University
31 “Fire and Ice: Conflict and Drugs in Myanmar’s Shan State,” i.
32 Ibid, 19.
national drug control and counter narcotic cooperation. The rest of this paper will explore China’s involvement in the synthetic drug trade in the Western Hemisphere and its connection to regional great power competition.

Western Hemisphere Synthetic Drug Trade

Synthetic drugs are a class of narcotics derived from chemical compounds that when produced clandestinely, “mimic or even enhance the effects of natural illicit drug.” Many illicit synthetic drugs consumed illegally for recreational use, such as fentanyl and anabolic steroids, have legitimate medical and therapeutic purposes and are routinely prescribed under doctor supervision. When abused, they can be highly addictive, and their production, distribution, and consumption are controlled both domestically and internationally. China is the world’s top producer of active pharmaceutical ingredients (APIs) and has the second largest pharmaceutical industry by revenue. As such, it plays an extremely prominent role in both the production and control of synthetic opioids.

Synthetic drugs and their chemical precursors are controlled under three, internationally recognized United Nations treaties, the 1961 Single Convention on Narcotics Drugs, the 1971 Convention Psychotropic Substances, and the 1988 Convention Against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances. The Commission on Narcotic Drugs (CND), the United Nations Office on Drugs and Crime (UNODC), and the International Narcotics Control Board were subsequently created to support the treaties by guiding policy, implementing drug control programs, and monitoring enforcement among signatories. Every country in the Western Hemisphere is a signatory to all three treaties. China is also a signatory to all three treaties.

Unlike drugs such as marijuana and cocaine, synthetics do not require vast swaths of territory and manual labor for cultivation. They can be produced virtually anywhere, so long as laboratory equipment and precursor chemicals are readily accessible. Synthetic drugs are also averse to supply side shocks, such as blights and infestations, that can wipe out legacy drug production for an entire season. Both factors make synthetic drugs a relatively low-cost alternative for drug traffickers and contribute to their growing popularity. Two popular and highly addictive synthetic drugs, methamphetamine and fentanyl, have supply chains that rely heavily on Chinese chemical and pharmaceutical manufacturers. The following subsections will detail the nature of these two drugs and their global supply chains.

37 Ibid.
Methamphetamine

Methamphetamine is a Schedule II synthetic stimulant that rose to popularity in the United States during the 1990s and early 2000s. Most methamphetamine consumed in the U.S. during this time was cooked in small, local labs in predominately rural areas of the country. The drug could be manufactured by using pseudoephedrine or ephedrine from unregulated over the counter decongestants.\(^{39}\) As a result, the drug had very few barriers to entry for production, and by the early 2000s, over 1.4 million Americans were consuming illicit methamphetamine.\(^{40}\) In response, Congress passed the 2005 Combat Methamphetamine Epidemic Act, which involved “setting sales limits for products containing precursor chemicals and requiring these products be sold behind the counter and entered into a national log.”\(^{41}\) Although production and consumption dipped in the aftermath of the law’s passage, the measure, which did little to target drug demand, had an almost immediate balloon effect. Mexican drug cartels moved to capitalize on the void in the market created by increased regulation by expanding methamphetamine production to an industrial scale, which brought down prices and help spur increased demand.\(^{42}\)

The Mexican government responded in a similar fashion to their American counterparts the following year by passing a law that regulated ephedrine and pseudoephedrine. Shortly thereafter, the


\(^{40}\) Ibid.

\(^{41}\) O’Connor, Sean, “*Meth Precursor Chemicals from China: Implications for the United States,*” 4.

\(^{42}\) Memolo, Jack, “‘Industrialized’ Methamphetamine Production in Mexico,” 4.
Mexican government banned the importation of methamphetamine precursor chemicals.\textsuperscript{43} In 2007, bilateral-cooperation between the United States and Mexico in 2007 helped quash methamphetamine production and transshipment for a brief period, with seizures to dropping by over a million kilograms, only to pick back shortly thereafter.\textsuperscript{44} Mexican drug cartels were able to circumvent increased domestic and international regulation by using alternative precursor chemicals that were readily available and by adapting their supply chains to source chemicals from Chinese pharmaceutical and chemical manufacturers.\textsuperscript{45} Mexico now produces 90 percent of all methamphetamine consumed in the United States and China produces 80 percent of the chemical precursors used in Mexican methamphetamine.\textsuperscript{46}

Chinese organized crime groups, known as triads, work with the cartels to ensure that precursors can transit into Mexico undetected and further “undermine Mexico’s anti-precursor regulations by transporting chemicals into Central American countries.”\textsuperscript{47} Central American countries are prime territory for traffickers looking to take advantage of weak state presence in order to ship illicit precursor chemicals. Although methamphetamine production in the United States is at a 15-year low, seizures at the U.S.-Mexico and drug poisoning deaths involving methamphetamine continue to increase.\textsuperscript{48}

\textbf{Photo caption:} Fentanyl-related deaths have risen dramatically in the U.S., increasing from about 3,000 per year in 2013 to more than 56,000 per year in 2017.

\textbf{Photo credit:} Associated Press

\textsuperscript{44} Ibid, 5.
\textsuperscript{45} Ibid, 51.
\textsuperscript{46} O’Connor, Sean, “Meth Precursor Chemicals from China: Implications for the United States,” 5.
\textsuperscript{47} Ibid.
\textsuperscript{48} “2019 Drug Enforcement Administration National Drug Threat Assessment,” 45-47.
trend is due in part to the low cost of production, indicating high availability, and the drug’s extremely level of purity and potency, which the Drug Enforcement Administration (DEA) estimates as having a 90 percent per-gram purity level.49

**Fentanyl**

Fentanyl is a powerful, highly addictive Schedule II synthetic opioid. The drug is synthesized in labs and sold on the illegal drug market either in pressed pill form or mixed into other drugs such as cocaine or heroin. Fentanyl is 30 to 50 times more potent than heroin and given its high potency-to-weight ratio, can net high profit margins.50 According to the Department of Justice (DOJ), it costs around $32,000 to produce a kilogram of fentanyl, which can then be used to “create a million counterfeit pills for a profit of more than $20 million.”51

The DEA had illicit fentanyl production largely under control after users started taking the drug recreationally in the late 1970s, and was able to clamp down on production following two overdose

---

**Figure 1.1.** Fentanyl Seizures and Synthetic Opioid Deaths in the United States, 2004-2017 from “The Fentanyl Trade Through Mexico, Explained in 8 Graphs,” Insight Crime, (2019).

49 Ibid, 44.


In 2013, illicit fentanyl seizures started skyrocketing (see figure 1.1) after Mexican drug cartels began “substituting fentanyl for heroin” in response to “declines in poppy cultivation.” The timing of the substitution was fortuitous and the drug quickly exploded onto market. The United States was, and still is, in the grips of a growing opioid epidemic triggered by the over-prescription of pain medication. In the absence of comprehensive drug treatment, many individuals “who developed opioid use disorders because of prescription pain medication misuse began switching to administering heroin.” Those same users were then introduced to fentanyl once Mexico’s cartels began substituting the drug for heroin.

Supply-side factors rather than user demand continue to drive fentanyl production and transshipment. Fentanyl is most frequently pressed into pill form and disguised to look like oxycodone so that traffickers can gain “access to the large prescription drug user population, which expands their market share and profit opportunities.” Many users do not know that they are consuming fentanyl since it is almost always disguised in other drugs. As a result, users are unable to control their dosage, which contributes to the drug’s lethality.

Chinese pharmaceutical and chemical manufactures with ties to Mexican drug cartels from their involvement in the methamphetamine trade became the suppliers of choice for fentanyl, fentanyl analogues, fentanyl precursors, and pill press machines once the market emerged. Manufacturers in the legitimate and semi-legitimate pharmaceutical and chemical industries produce fentanyl and fentanyl precursors that are either exported to Mexico in shipping containers or mailed to the United States and Canada via the international mail stream. Triads are also known to divert chemical precursors in order to produce the drug in clandestine labs, though their involvement in fentanyl production and transshipment is purportedly much smaller than that of methamphetamine.

After manufacturers export either the drugs or their precursor chemicals, the Sinaloa Cartel and the Jalisco Cartel New Generation (CJNG) will intercept them at ports along the Pacific coast in Manzanillo, Colima and Lázaro Cárdenas, Michoacán. Precursor smuggling also occurs between the United States and Mexico at the southern border (see figure 1.2). From there, the precursors are synthesized and manufactured or pressed into pill form and smuggled across the U.S.-Mexico border. The bulk of fentanyl that makes it into the United States via the southwest border is moved by Dominican street gangs that operate East Coast drug distribution networks.

Fentanyl produced in Mexico tends to have a much lower purity level than what is shipped via the

---

54 Dudley, Steven et al., “Mexico’s Role in the Deadly Rise of Fentanyl,” 14.
international mail stream, likely because Mexican drug trafficking organizations (DTOs) are “mixing fentanyl with diluents prior to smuggling (either in powder or pressed into counterfeit tablets) or synthesizing product of low purity.” In 2018, fentanyl shipped from China through the mail and express consignment accounted for 70 percent of all purity-adjusted seizures in the United States. To combat these flows, the United States government pressured the United States Postal Service (USPS) and the Chinese government to heighten enforcement. On April 1, 2019, the Chinese government responded to U.S. pressure by introducing a blanket ban on fentanyl analogues. The USPS also started collecting advanced electronic data on all inbound packages from China. In a matter of months, the amount of fentanyl shipped from China via the U.S. mail system fell to a matter of pounds. Like with methamphetamine, heightened enforcement did little to impact drug production or consumption, as Chinese manufacturers instead began shipping fentanyl and fentanyl precursors to Mexican DTOs in higher volumes for smuggling across the border. According to CBP FY 2019 seizure data, fentanyl seizures at

---

60 Pardo, *Illicit Supply of Fentanyl and Other Synthetic Opioids*, 6.
63 Ibid.
ports of entry are up by 34 percent compared to FY 2018.64

The shift in fentanyl production to Mexico has had a seismic effect on the country’s criminal landscape. The entry of smaller DTOs into the illicit drug market due to lowered barriers to entry has added fuel to the country’s ongoing drug war.65 Smaller DTOs can manufacture fentanyl due to its ease of production and transshipment. An increasing number of DTOs are now fighting tooth and nail for their cut of the market.66 By the end of 2018, the country’s intelligence services were tracking 25 simultaneous conflicts occurring between 23 minor criminal organizations throughout the country.67 Declining demand for heroin triggered by fentanyl’s increasing use has also sparked renewed conflict among DTOs that can no longer operate at a profit in traditional poppy growing regions. In order to recoup their profits, DTOs, vigilante groups, and gangs in poppy regions are battling for control over fuel theft rings, gold mines, and overland fentanyl precursor routes.68 The re-introduction of fentanyl coupled with the country’s prevailing security strategy have led to a period of violent fragmentation among the drug cartels and has helped bring the country’s murder to an all-time high.

**China’s Response to Trafficking in the Western Hemisphere**

The Chinese government’s response to the massive flow of illicit synthetic drugs and precursors from its pharmaceutical and chemical industries to non-state actors in the Western Hemisphere is constrained by its economic and geo-political imperatives. As part of its “Made in China 2025” industrial policy, the Chinese government has made revenue growth within its biopharmaceutical sector a top development priority. The push to grow this sector, which can be felt at almost every level of government, has created competing incentives that hinder effective regional drug control.

**China’s Pharmaceutical and Chemical Industries**

Pharmaceutical and chemical companies became the target of intense state promotion once the Chinese economy started to liberalize, and they have continued to receive a steady stream of subsidies, reimbursements, and tax incentives from the central government.69 As a result of the state’s aggressive modernization efforts, both industries have exploded in size and profitability. At present, there are 4,441 drug manufacturing firms and 508,000 firms with pharmaceutical business licenses, which includes

---

65 Dudley, Steven et al., “Mexico’s Role in the Deadly Rise of Fentanyl,” 21.
66 Deborah Bonello, Interview on fentanyl trafficking and organized crime in Mexico, phone, November 21, 2019.
wholesale distributors, drug retail firms, drug retail stores, and retail pharmacies in China, according to the China Food and Drug Administration’s (CFDA) 2018 Annual Report on Drug Supervision Statistics. Additionally, the country is home to an estimated 160,000 chemical companies which produce 40 percent of the world’s chemicals, making China the largest chemical exporter by volume.

The Chinese government is currently attempting to move both industries up their respective value chains as part of its “Made in China 2025” industrial policy to help the country out-compete the United States in high-tech manufacturing. In its 13th Five Year Plan (2015-2020), which outlines the country’s near-term economic and social policy objectives, the Chinese government called for output in the biotech sector to exceed 4 percent of GDP by 2020. This level of output “would be achievable only by a massive increase in exports.” Largely unfettered exports of pharmaceuticals and chemical precursors would therefore serve the economic and geopolitical interests of the Chinese government by boosting the biotech sector’s GDP share while chipping away at the United States’ dominant position in the global market for high-tech manufacturing.

---

While financial carrots from the Chinese central government may help further its great power goals, in both industries, “money intended to spur legitimate innovation has gone to companies exporting fentanyl, fentanyl precursors, synthetic cannabinoids, and other dangerous products.” The same companies that are benefiting from subsidies and tax incentives are also responsible for providing Mexican cartels and drug trafficking organization with the raw drugs and chemicals they need to pump the Western Hemisphere with illicit synthetics drugs.

There are three types of companies in China that operate within the synthetic drug market with varying degrees of legality and oversight:

I. Companies that clandestinely manufacture drugs that are illegal in both China and the Western Hemisphere.
II. Companies that operate in the open and specialize in new psychoactive substances (NPS), such as synthetic cannabinoids, that are illegal in the Western Hemisphere but are legal in China.
III. Companies that operate in the open that don’t make recreational drugs, rather they produce precursors and other drugs, such as anabolic steroid, that are illegal in Western Hemisphere but legal in China.

Many of these companies nominally operate under the color of Chinese law while at the same time violating international export controls. The following subsection will explain how the Chinese government’s attempts at regulatory enforcement in both industries clashes with its stated commitment to international drug control.

**Chinese Drug Control Efforts**

In spite of the Chinese government having re-structured its major drug regulatory agency, scheduled the most prevalent synthetic drug precursors, and placed an all-out ban of fentanyl analogues, the amount of methamphetamine and fentanyl smuggled across the U.S.-Mexico border has steadily increased over the past five plus years. Drug traffickers in Mexico simply cannot manufacture methamphetamine and fentanyl at volumes shown below (see figure 2.1 and 2.2) without chemical precursors from Chinese manufacturers. There appears to be a significant gap between the intent and practice of China’s stringent drug control laws in the face of added external pressure to halt illicit drug and precursor flows.

The Chinese government’s efforts to curb the flow of methamphetamine precursors are heavily concentrated within a single year. In 2015, the Chinese government heightened enforcement measures to target precursor production and added additional precursors to its scheduling regime (see figure 2.1).74

---

During that year, tension between the United States and China were high over trade and accusations of internet theft, both of which came to a head during President Xi Jinping’s first state visit. Although these actions were much needed, they were also long overdue considering that methamphetamine precursor production had shifted to China from the Western Hemisphere eight years prior. Former Mexican Ambassador to China, Jorge Guajardo, who served from 2007 to 2013, said the following about China’s willingness to curb precursor flows prior to its more recent enforcement efforts:

They just didn’t see what was in it for them to look into their own industries exporting these chemicals. In all my time there, the Chinese never showed any willingness to cooperate on stemming the flow of precursors into Mexico.

Although the Chinese government’s rhetorical and regulatory commitment seemed to have improved after Ambassador Guajardo left office, neither had a tangible impact on the amount of methamphetamine produced and smuggled across the U.S.-Mexico border. In fact, between FY 2015 and FY 2019, there was a 230 percent increase in the amount of methamphetamine smuggled through the southwest border (see figure 2.1.)

While the Chinese government has taken regulatory action to curb fentanyl, fentanyl analogue, and fentanyl precursor exports by implementing new chemical controls and banning analogues, the end

---


The greater attention paid by the Chinese government to fentanyl flows can be explained by its relevance during ongoing trade negotiations with the United States, which began in February 2018 and are still ongoing. As shown above, in spite of increased external pressure and new enforcement measures, the amount of fentanyl smuggled through the U.S.-Mexico border has increased by 34 percent between FY 2018 and FY 2019, and year to date seizure statistics for FY 2020 are on par, if not slightly higher, than those seen in FY 2019.

Chemical and pharmaceutical companies use a variety of methods to skirt regulation and enforcement measures. Due to their synthetic nature, “the chemical structures of fentanyl analogues and other NPS can be modified in an endless number of combinations to create chemically similar yet distinct substances.” Manufacturers can produce new illicit drugs and precursor chemicals faster than the Chinese government, which schedules drugs and chemical one at a time, can realistically control given the current configuration of its drug control system. Fentanyl chemical precursor manufactures are also known to “evade scrutiny by labeling their products as industrial chemicals instead of pharmaceutical ones.”

---

Figure 2.2 Fentanyl seizures at ports of entry at the U.S.-Mexico border from CBP’s Enforcement Statistics, 2012-2019. Note: Year to date seizure in FY 2020 are on par, if not slightly higher, than seizures in FY 2019.

---

81 Westhoff, Ben, Fentanyl, Inc.: How Rogue Chemists Are Creating the Deadliest Wave of the Opioid Epidemic, 245.
The growing size of China’s pharmaceutical and chemical industries present a legitimate, but in no way insurmountable, challenge to effective drug enforcement. China may very well have a piecemeal scheduling system, under-funded and under-trained drug enforcement officials, and overlapping, redundant regulatory bodies at the local and state level—all of which it has the power to correct, but none of these factors explain why, in spite all of the government’s efforts, drug production and transshipment to the hemisphere have gone up significantly over the past five years.\footnote{See O’Connor (2018) and Westhoff (2019) for more in-depth analysis of the numerous challenges China faces in drug and regulatory enforcement.} It isn’t just that Chinese drug control efforts aren’t fully effective, they aren’t working at all. The regulatory incentive structure created by the Chinese government’s desire to outcompete the United States in innovation-based manufacturing undermines the effectiveness of its drug control efforts to the point where illicit precursors flow freely between chemical and pharmaceutical manufactures and non-state actors.

**Conclusion**

China’s constrained approach to drug control in the Western Hemisphere is rooted in great power competition and has been catastrophic for American public health and security. Although the United States rightfully bears the brunt of responsibility for the creation and perpetuation of its domestic opioid crisis due to unchecked demand, the supply of synthetics drugs would dry up without Chinese pharmaceutical and chemical manufacturers. The spread of synthetic drug production has also had a profound effect on Mexico’s criminal landscape and is driving its DTOs to atomize and move into other illicit economies. In response, policymakers should more forcefully leverage America economic and political might to compel meaningful Chinese drug control and should dedicate greater amounts of foreign counternarcotic assistance to bolstering precursor chemical detection at Mexico’s ports in Manzanillo and Lázaro Cárdenas and along the Central American isthmus.
Bibliography


Deborah Bonello. Interview on fentanyl trafficking and organized crime in Mexico. Phone, November 21, 2019.


———. “Meth Precursor Chemicals from China: Implications for the United States.” Staff Research


