

# THE ILLEGAL PACIFIC, PART 1: ORGANISED CRIME

Until the islands establish the rule of law, they will continue to suffer from the ‘dark side’ of globalisation, writes **Sue Windybank**

Ten years ago, the Pacific islands were relatively free of organised crime. But almost overnight it has found a foothold, and is now expanding its activities and reach. Chinese crime gangs are the most active, smuggling drugs, people and counterfeit goods, and running gambling and prostitution in Port Moresby and Suva. Illegal migration drives the overall crime trend. While the scale of Chinese criminal activity may be limited by global standards, the impact is magnified in small and weak states.

Ten years ago, the prospect of armed intervention to prevent state failure in the region was considered low. A policy turnaround in 2003 saw Australian troops and police lead a regional intervention in Solomon Islands to restore law and order, with some returning less than three years later after rioting erupted in Honiara. Tonga burst into flames with riots in November 2006, while Fiji finished the year with its fourth military coup. As Kevin Rudd has pointed out, the ‘arc of instability’ in the Pacific has gone from being a ‘strategic concept’ to ‘strategic reality’ in less than a decade.<sup>1</sup>

It is no coincidence that organised crime is spreading at a time of growing instability. Poor governance, weak law enforcement, and corruption provide attractive conditions for crime syndicates. These problems are most acute in the larger

Melanesian countries of Papua New Guinea, Fiji, the Solomon Islands, and Vanuatu. But even the smallest microstates have become breeding grounds for nefarious international activity. When Nauru frittered away its phosphate trust funds, it resorted to selling passports to raise funds and allowed the Russian *mafia* to launder billions through its offshore banks. Money laundering and drug trafficking are thus growth industries in countries with stagnant economies and corrupt officials.

This article argues that the Pacific is developing a comparative advantage in illegality,<sup>2</sup> a largely man-made endowment. It examines the evolution of drug trafficking, money laundering, and people-smuggling and illegal migration in the region. Some progress has been made in curtailing the first two, but illegal migration remains a serious problem. An article in the next issue of *Policy* will address so-called resource crime—illegal logging and fishing.

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Two caveats must be noted from the outset. First, reliable data and statistics on the scale of organised crime in the region are very limited. Evidence is often anecdotal, contradictory, or fragmented. Drug seizures, for instance, provide some information on how drug traffickers operate, but the real extent of the problem remains unknown.

Second, distinguishing between lack of capacity, resources, and will is crucial. Some governments do not have the financial, human, or technical resources to implement sophisticated law enforcement and border management, and they welcome external assistance. Others turn a blind eye to illegal activity because they benefit from it. In such circumstances, progress is extremely difficult. As a recent report on regional security rightly noted, 'the struggle against organised crime must go hand in hand with the campaign against corruption, because the two are linked.'<sup>3</sup>

### Drug trafficking, production, and use

The Pacific is no stranger to illicit drugs. The region has long been a transit point for drug shipments destined for markets in the United States, Canada, Australia, and New Zealand. Examples include cocaine-stuffed Tongan yams bound for New Zealand, and heroin-filled pineapple tins sent from Asia to the Cook Islands for reshipping. In 2004, *Islands Business* reported that a '50 kilo packet of cocaine found floating in a Kiribati lagoon was thought to be washing powder and used for laundry purposes at US\$50,000 a kilo.'<sup>4</sup>

What has changed is the size of drug shipments. In 2000, police seized 357 kg of heroin from a Suva warehouse. At the time, it was the fifth-largest shipment ever found outside heroin-producing countries. Until then, the head of the Fiji drug squad had never seen heroin.<sup>5</sup> Four years later, 120 kg of heroin was found buried on a beach in Vanuatu less than half an hour from the capital, Port Vila—the biggest seizure in its history. This haul was linked to Chinese nationals behind the 2000 bust in Fiji. Large shipments of cocaine have also been seized in Tonga (2001) and Samoa (2006).<sup>6</sup> Their very size indicates they were destined for bigger markets such as Australia.

Why the change? Like the Caribbean, where small island states located between cocaine-

producing Andean countries and major northern markets became transshipment points, Pacific islands are used as a transit point between source countries—East Asia for ice and heroin, and South America for cocaine—and markets in the United States, Canada, Australia, and New Zealand.<sup>7</sup> Routing drugs through the Pacific disguises the origin of shipments. As shipping routes in other parts of the world come under increased surveillance, the region also becomes a more attractive alternative route. Some five thousand vessels cross the region on any given day. Large shipments can be transferred from a mother ship into smaller boats that speed to isolated atolls to await transit to the next destination.<sup>8</sup>

But geography alone cannot explain why the Pacific has become attractive to organised crime. Isolation and distance from markets are often given as reasons for why the region has not developed, yet drug traffickers have not found

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remoteness a barrier to trade. The main appeal is the relative ease with which crime syndicates can operate. The Pacific's smorgasbord of jurisdictions and outdated legislation—combined with weak law-enforcement and high levels of corruption—minimise risk. This gives organised crime the highest profit at the lowest risk of detection and prosecution, making transport costs irrelevant.<sup>9</sup> As then Pacific Islands Forum secretary-general Greg Irwin has pointed out, 'People with evil intent can go shopping in the region. If one jurisdiction doesn't suit them, there's another one down the road.'<sup>10</sup> Visa rackets allow criminals to slip in and out of countries unhindered.

#### *Ice: The next wave*

The 2004 seizure of 5 kg of crystal methamphetamine or 'ice'—and enough chemicals to make another 1,000 kg—from a 'superlab' in the backstreets of Suva signalled another ominous change: the region's evolution from transit

point to production site. At the time, it was the biggest laboratory ever discovered in the southern hemisphere. Outdated legislation meant that police had to wait over a year before busting the lab because Fijian law banned only the finished product, not its ingredients. A new bill increasing the maximum penalty for drug trafficking from eight years to life—in line with Australia—went before Parliament on the day of the raid. Of the initial suspects arrested, two were Chinese nationals, one was Fijian-born, and four held Hong Kong passports.<sup>11</sup> Their company imported chemicals and lab equipment using false invoices and misleading customs declarations. A Fijian customs officer and a courier firm employee facilitated imports, while a Fijian immigration official arranged visas for lab workers. Funds from Hong Kong were regularly deposited into a Suva-based bank account.<sup>12</sup> The street value of the drugs seized—combined with the raw materials to manufacture more—was estimated at up to \$500 million.

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The Fiji bust sent a message that the Pacific is not necessarily the soft target it seems, but the establishment of another major laboratory—or several—may only be a matter of time. The scale of the Suva operation, increasing demand in New Zealand and Australia, and attempts to import large quantities of precursors into countries without a pharmaceutical sector all point to a potential growth industry.<sup>13</sup> Ice is easy to make and very profitable. A ‘point’ (0.1 g) costs less than a dollar to make and sells for up to \$50 in Australia. Unlike marijuana, it can be easily shipped because it is not bulky or smelly. Unlike heroin and cocaine, production is mobile because it does not require large crops of opium or coca. A former Papua New Guinean parliamentarian warns that ‘As Colombia and cocaine are to the US, the Pacific rim and ice will be to Australia.’<sup>14</sup>

Equally—if not more—alarming is the potentially devastating impact of ice on small island societies. The North Pacific has seen a rise in drug abuse among jobless youth in Guam, Palau, and Hawaii, with ice causing social and economic havoc.<sup>15</sup> Young unemployed people who drift to urban areas across the South Pacific are just as vulnerable. Drug dealing is a way for them to make money, while drug use eases the boredom of having nothing to do. In Papua New Guinea, the combination of marijuana and alcohol has already led to mindless violence and rising crime in towns and villages. Adding ice to this mix could overwhelm medical staff and police. Users feel strong, even superhuman. Abuse may lead to hallucinations, with reckless criminality and extreme violence marking a psychotic episode. Imagine doctors and nurses trying to subdue violent patients in emergency wards, or police trying to apprehend armed *raskols* high on ice. Port Moresby drug squad detectives report that ice is now available on the club circuit.<sup>16</sup> Local production to meet demand is unlikely to lag far behind.

### Illegal migration and people-smuggling

Criminal activities are linked. It is thought that Chinese gang members were sent to the Pacific up to a decade ago, with islands such as Fiji and Tonga providing operational bases from which to expand.<sup>17</sup> Gangs originally viewed the region as a back door to American drug markets via Palau, Micronesia, and Guam in the north, and Fiji, Tonga, and American Samoa in the south. (American Samoa and Guam are US territories with easy access to the US mainland).<sup>18</sup> Drug trafficking routes were then used for illegal migration, so that Chinese organised crime island-hopped across the region. Some illegal migrants work in black labour markets, mainly in prostitution and illegal gambling. Others establish small businesses that often act as fronts for crime.

The illegal population in the South Pacific is conservatively estimated at twenty thousand.<sup>19</sup> Southern China is the main source of illegal migrants, with some seven thousand arriving in Fiji between 2003 and 2005 alone, and ten thousand arriving in Papua New Guinea since 2003.<sup>20</sup> Many simply overstay student, visitor,

or business visas by disappearing into established networks. Others use false or altered passports and visas to gain entry.<sup>21</sup> Some buy citizenship not long after arriving, by bribing officials to overlook long-term residency requirements.<sup>22</sup> They then pressure officials to admit more migrants.<sup>23</sup> Their ultimate destination is often Australia.<sup>24</sup>

Pacific governments have effectively sponsored illegal entry:

- Passport sales to raise funds have opened the front door to crime networks. In the mid- to late 1990s, Nauru, Vanuatu, Kiribati, Tuvalu, the Marshall Islands, and Tonga all established lucrative schemes. Some island governments—such as Nauru—hired outside agents to handle sales in Asia. Under its ‘Citizenship Investment Program,’ the phosphate isle sold over a thousand passports, earning the condemnation of then US Secretary of State Colin Powell for its ‘indiscriminate’ sales.<sup>25</sup> (Where was Australia?) Tonga ceased sales only after the value of its passports plummeted because of diminished international credibility. While most schemes have now ended, many passports remain missing.<sup>26</sup>
- In 2002 the database and passport-making machine were stolen from Papua New Guinea’s immigration department. It was an inside job. Of twelve officials implicated in the scam, only one was charged.<sup>27</sup> Not long after, streams of Chinese migrants began arriving. Six years on, the department remains under a cloud. Allegations persist of backroom payments for passports, visas, work permits, and citizenship certificates. The foreign minister blames inadequate staffing and a subsequent backlog for bribes to process applications. But hiring more personnel is not the answer if corrupt officers are not disciplined or dismissed.<sup>28</sup>
- Island governments desperate for foreign investment have introduced incentive schemes that only invite abuse. In the mid-1990s, more than two hundred tax-free companies were established in Fiji after the Trade and Investment Board not only waived character checks on investors but also offered free entry to skilled workers and seven-year residency to company principals. Most were Chinese nationals from Hong Kong. Australian federal police checks showed that more than half the firms were paper companies

and likely fronts for a people-smuggling racket to Australia.<sup>29</sup> The current military regime bears watching. It recently changed immigration rules so that Chinese citizens can now enter the country without visitor visas.

Nine Pacific countries have reported people-smuggling, although the numbers remain small. Similarly to drug smuggling, the region is used primarily as a transit point for people destined for other countries, mainly the United States and Canada.<sup>30</sup> The islands also facilitate people-smuggling through identity fraud. A people-smuggling ring in Vanuatu that supplied false passports to Chinese nationals to transit through Fiji en route to Australia was recently disrupted.<sup>31</sup> People—mostly Chinese, Sri Lankans, and Iraqis—have been smuggled on a small scale to Australia and New Zealand through Papua New Guinea.<sup>32</sup> This trickle is nothing compared to the flood of illegal migrants entering the islands.

As their economic ties with Asian countries grow, Pacific governments must balance the need for investment and trade (and hence the movement of people and goods) with more effective law enforcement and border control. The granting of Approved Destination Status for Chinese tourism to some island countries is a potential economic boon, for instance, but it is also likely to increase opportunities for illegal migration and criminality—unless governments tighten up border management, weed out corrupt immigration and customs officials, enforce labour laws, and improve local policing. If they do, new Chinese migrants are likely to be more accepted. If they don’t, the potential for (further) ugly backlashes is very real. The deliberate targeting of Chinese shops and businesses during the 2006 riots in Honiara and Nuku’alofa demonstrated the depth of feeling. Similar tensions simmer elsewhere.<sup>33</sup>

*A growing menace...*

Pacific islanders have (correctly) associated many newly-arrived Chinese migrants with a rise in crime. Prostitution, contract killings, and illegal gambling are the most visible signs of a new criminal presence. Chinese prostitutes were originally brought to Fiji to service Asian fishing crews in backstreet brothels. Suva now has dozens of Chinese-only whorehouses. The current military government has since deported some prostitutes.

To date, reported cases of human trafficking (also known as sex slavery) have been confined to the North Pacific.<sup>34</sup>

Underworld-style murders—from point-blank shootings in Fiji to ‘hammer killings’ in Vanuatu—have added a sinister dimension to local crime. These are business-related ‘hits,’ unlike the unpredictable *raskol* crime on the mean streets of Port Moresby. Cooperation between *raskols* and Chinese gangs is emerging, though, so that crime in Papua New Guinea is becoming more organised and sophisticated. Links between local and international criminals can be expected to grow in other Pacific countries, too.

Chinese crime gangs have put some professional backbone into illegal gambling. In Papua New Guinea, horse-racing machine operators allegedly pay senior police and other officials some \$6 million a year in protection money, from annual revenues of up to \$37 million. Profits are thought to be reinvested in other criminal activities.<sup>35</sup> A shared emphasis on patronage networks has led to a symbiotic relationship between official corruption and Chinese gangs, increasing the resources and power of *uncivil society*.<sup>36</sup> Papua New Guinea’s police minister has warned that the ‘Chinese mafia have bought off officials throughout the system.’<sup>37</sup> Known criminals have avoided deportation and almost gained citizenship.<sup>38</sup>

The tiny indigenous small business sector ... is further undermined by the unfair trading advantage of criminally owned small businesses.

Chinese organised crime also invests in legal enterprises to disguise illegal activities and to launder funds. Typical businesses are casinos, restaurants and hotels. Chinese underground bankers provide startup capital at extortionate interest rates, leaving no paper trail.<sup>39</sup> Profits are moved offshore. Rumours that the Pacific Casino Hotel in Honiara was a hotbed of prostitution and money laundering—and that the Chinese owners bribed officials to get the land it was built on—saw it burned to the ground during the April 2006 riots.

*...and the growing backlash*

Crimes by islanders against new Chinese migrants are rising. These range from extortion, arson, and robbery through to physical attacks and even murder.<sup>40</sup> Two explanations stand out. First, some Pacific islanders fear they are becoming second-class citizens, as Chinese migrants take jobs and compete for business. Local newspapers are full of anguished letters: ‘Asians are taking our land’ is a common complaint. Second, many newly-arrived migrants are seen to corrupt officials and politicians and extract wealth without paying taxes or duties. Some are probably just cutting corners, but others are linked to crime.

A more insidious issue is the effect criminally owned or controlled small businesses and shops have on local economies. By corrupting customs officials, they avoid duty on smuggled high-value or counterfeit goods. False invoices and undervalued imports allow them to sell products at lower prices that undercut local retailers. Bribes paid to wharfies mean that Chinese goods are already in stores while others are still in customs warehouses. Corrupt officials then try to extract bribes from legitimate businesses too. The tiny indigenous small business sector that already struggles to overcome high costs, bureaucratic red tape, and clan inroads into profits is further undermined by the unfair trading advantage of criminally owned small businesses. A commercial climate develops where it becomes very costly to operate within the law and stay in business. Barely legal and illegal practices therefore become the norm.

### Money laundering

The Pacific attracted international notoriety in the post September 11 climate after the OECD’s Financial Action Taskforce blacklisted Nauru, Niue, the Cook Islands, and the Marshall Islands for suspected money laundering, yet this white-collar crime has a long history in the region. Weak banking systems, strong secrecy laws, and poor oversight have led to the sordid abuse of the islands’ offshore financial centres. Established to provide a source of revenue through registration fees to newly independent island states, management proved to be largely beyond local expertise. It fell to expatriate lawyers, accountants, and bankers to administer the fledgling centres.

Some of these white-collar professionals are as culpable as elements within host governments for undermining the financial integrity of the South Pacific islands that established offshore banking: Vanuatu (the largest), Nauru (the most infamous), the ‘Crook Islands’ (as they became known), Samoa, Niue, and Tonga.<sup>41</sup>

The vast money flows through Pacific offshore financial centres have only made modest contributions to island GDP, and negligible contributions to local employment. In 1999, Nauru’s offshore financial centre contributed just 2% to GDP despite the Russian billions that flowed through it. Vanuatu’s offshore financial income is generously estimated at just over 6% of GDP.<sup>42</sup> The sector employs less than two hundred ni-Vanuatu. The damage to the country’s reputation for financial probity has been a considerable cost.

Some progress has been made. There are no longer any Pacific states on the Financial Action Task Force blacklist. Most island governments now have financial intelligence units to monitor and report transactions, as well as anti-money-laundering legislation, to comply with United Nations conventions. In some countries—such as Vanuatu—these measures have only been grudgingly introduced. It remains to be seen whether legislation will be watered down. Reporting is still weak. A 2006 Australian Federal Police assessment described the state of anti-money-laundering capacity in the region as ‘debatable.’<sup>43</sup>

High compliance costs have since forced Tonga and Niue to end offshore banking. Vanuatu has seen the number of offshore banks drop from thirty-seven to seven since new banking rules were introduced.<sup>44</sup> It blames—with some justification—the OECD’s self-interested campaign against ‘harmful tax competition’ for falling business. But studies show that the success of an offshore financial centre ultimately depends on good governance: ‘sound legal institutions, low levels of corruption, and checks and balances on government.’<sup>45</sup> As other offshore centres clean up their act or close down, pressure on remaining Pacific jurisdictions to turn a blind eye to dubious customers may increase.

Money laundering may also take other forms. The use of underground banking to launder funds

could become an issue given the large proportion of remittances that is thought to pass through unofficial or informal channels.<sup>46</sup> Online casinos throughout the region are a vulnerable new trend, as internet gambling is another means of money laundering.

### Regional responses

Regional cooperation on organised crime is crucial. Instead of trying to build an EU-style Pacific community, the Pacific Islands Forum should emphasise practical cooperation by coordinating a common regional stance on illegality of all kinds. Progress on money laundering and drug trafficking indicates that some success is possible.

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The Forum has led the creation of a regional framework on transnational crime through declarations and model laws that island governments can adjust to their needs. This legislative focus is a necessary first step. Domestic laws in some Pacific countries date back to independence and do not address transnational crime issues. The 2004 ice bust in Fiji demonstrated the importance of a more uniform approach to law enforcement—such as a consistent approach to offences and penalties—to reduce the legal discrepancies that organised crime exploits. And Fiji has some of the stronger laws in the Pacific. Along with Tonga, it is the only island country that is party to all three international drug control treaties.<sup>47</sup> Legislation must then be implemented and enforced. The Pacific has many laws, but rule of law remains weak.

At the institutional level, a regional security ‘architecture’ has emerged and an alphabet soup of regional security ‘agencies’ now meets regularly. A swag of initiatives mainly concerned with counteracting terrorism and money laundering are underway. The Australian-funded Pacific Transnational Crime Coordination Centre

has made some major drug busts. Australia also funds Transnational Crime teams to Fiji, Vanuatu, Samoa, Tonga, Papua New Guinea, and the Solomon Islands. Regional police training initiatives and liaison between Australian and Pacific police complete the picture. Improving coordination between agencies and establishing a better knowledge base will be key tasks in the years ahead.

Illegal migration is an urgent issue. A concerted international effort will be needed to stop it, starting with high-level support from governments in Australia, New Zealand, and Pacific island countries—as well as full cooperation from China. It should be noted that there is considerable suspicion about the relationship between some Chinese embassies and Chinese crime, particularly in Papua New Guinea. Chinese diplomats are thought to cultivate criminals to spy on countries, corrupt politicians, and infiltrate bureaucracies.<sup>48</sup> Action on Chinese crime gangs is thus emerging as an early litmus test for Chinese claims to be a benign ‘friend’ to the region.

## Conclusion

International criminals operating in the Pacific once hailed principally from Australia, New Zealand, France, and the United States. These crooks are still active. What has changed is that crime syndicates from outside the region (mainly China) are now doing business from within it. Similarly, where Australian, British, and Japanese companies once dominated the Pacific’s timber industries, now Chinese-Malaysian timber firms are the main players. This reflects a long-term shift away from the ‘old’ Pacific—the postcolonial order dominated by Western powers—toward the ‘new’ Pacific, a more fluid regional order in which Asian powers play a greater role. Asian countries are mainly interested in the region as a cheap source of natural resources and international votes. The Pacific stands to benefit greatly from looking north to Asian dynamism for export markets, tourism, and investment, but only if island governments establish and enforce the rules of the game.

It is not necessarily the source of illegal activity that matters, but the networks and infrastructure established that can then be used for other purposes. Links between logging and fishing activities

and organised crime exist at the margins. Papua New Guinean police claim some timber camps run a sideline in trading guns for drugs. Fishing boats have ferried illegal migrants to Fiji. A 2006 strategic assessment warns that the potential for arms trafficking via established transport routes looms as a major concern. Demand is high, and weapons are easily and cheaply available in Asia, where most fishing fleets and logging vessels in the Pacific originate.<sup>49</sup>

While organised crime is a serious problem, the biggest threat to the islands comes from within. As former Australian Federal policeman John Murray, with ten years’ experience in the region, lamented in his memoirs, ‘The prevailing menace comes from a combination of premeditated opportunism by white-collar fraudsters and widespread domestic corruption which is destroying the fiscal and political integrity of Pacific island countries and annihilating the natural resources belonging to their societies as a patrimonial right.’<sup>50</sup> A key challenge is overcoming the influence of corrupt elites who are willing to sell their country’s sovereignty and natural heritage to the most active external players for a quick and easy buck.

Australia can help the islands hold the line against organised crime, but it cannot export the rule of law. Better governance and law enforcement are only possible with improvements in economic, social, and political conditions, yet nearly all the relevant indicators point the wrong way. The Rudd government has indicated that it will balance its predecessor’s lopsided emphasis on governance and security with a greater focus on development and growth. This is often presented as a chicken-and-egg dilemma when, in reality, both the chicken and egg are necessary. Corruption cannot be addressed if there is no economy outside resources and aid. Only the demands of citizens can improve governance, and demands are more likely to arise with jobs, rising incomes, and better living standards. The South Pacific is a rare case where strategic and humanitarian interests converge.