

Knowledge document

Daigou and criminal underground banking

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1. Introduction

Criminal investigations have given rise to an image of criminal underground bankers operating in an organized manner to move money, often in cash, using flows of money and goods that mainly run via China. To this end, sums of money are ‘divided up’ and then moved around through, among other things, money smuggling, informal money transfers, and the trade in commodities, often luxury goods, a system known as Daigou.

Daigou is purchasing goods (usually luxury goods) in Western countries and then selling them in the People’s Republic of China. The term Daigou applies both to the activity itself and to the individuals that carry it out. Before we explain in more detail what Daigou is and how this phenomenon relates to criminal money (mainly cash), the next section explores what brings these two worlds together.

2. Underground banking

International trafficking in narcotic substances generates huge quantities of cash in the countries where these narcotic substances (henceforth ‘drugs’) are sold. When it comes to organizing the flows of money involved, drugs organizations are strongly dependent on underground banking networks. These networks ensure that cash can be collected in a country such as the Netherlands and then paid out in another currency in the country of someone’s choice. Similarly, the underground bankers can move drug money from abroad to the Netherlands to be invested in new drug trafficking operations. It is not necessary for the money to be physically transported from country A to country B: through their networks, underground bankers are able to balance the supply and demand of criminal cash, often within a given country, thus reducing the necessity to physically transport money across national borders to a minimum. This system is also sometimes referred to as an informal value transfer system (IVTS). Payment may be in cash, but may also be made in cryptocurrencies, for instance, in which case the criminal money is directly placed into the financial system. Through their activities, criminal underground bankers constitute the financial backbone of the international drugs trade. For a comprehensive explanation of what criminal underground banking is, and of the actors involved, see the website of the AMLC.¹

A report on Chinese underground banking and Daigou published by the British National Crime Agency (NCA) in 2019 already provided a detailed explanation of the relationship between Chinese restrictions on capital and the demand for Western currencies (outside China) via Chinese money laundering organizations (CMLOs), which is assumed to be increasing.² The Chinese government has imposed restrictions on moving money out of China. At the time of drawing up of the current knowledge document, the sum Chinese residents may transfer from China, exceptional circumstances excluded, stands at USD 50,000 per year. All such transactions must be conducted via a special foreign exchange account opened with a Chinese bank. This means that there is a legal way for Chinese residents to transfer money out of the country, but that this is monitored and capped. In addition, from 2017 withdrawals with a Chinese bank card outside China have been subject to an annual limit of RMB 100,000 (approximately EUR 13,095) per year.³

¹ <https://www.amlc.nl/witwassen-via-ondergronds-bankieren/> (in Dutch); see also <https://www.amlc.eu/> for a partial English version of the website.

² “Chinese Underground Banking and ‘Daigou’” (October 2019), National Crime Agency (NCA), United Kingdom, on <https://www.nationalcrimeagency.gov.uk/who-we-are/publications/445-chinese-underground-banking/file>

³ This certainly applied until 24 November 2022, according to HSBC bank, <https://www.hsbc.com.cn/content/dam/hsbc/cn/docs/Debit-cards/debit-card-service-guide-1106.pdf>

Because many Chinese nationals need to transfer more funds out of China (for example to finance their children's studies, or to buy luxury or other goods or real estate), the above restrictions mean that some Chinese citizens choose non-legitimate routes to move money and assets out of China.

The mechanism works as follows:

1. In China, a sum is transferred to a bank account controlled by a Chinese underground banker;
2. This underground banker ensures that a parallel payment is made, by funds transfer or by cash, at the destination of the sender's choice.

According to the National Crime Agency (NCA), underground bankers in the United Kingdom have three requirements: access to bank accounts, access to network coordinators, and ready access to a supply of cash.

It emerges both from the NCA's analysis and from Dutch criminal investigations that Chinese underground bankers outside China have a strong need for Western currencies, especially as their pool of clients grows, and thus also the number of different countries/destinations in which payments must be made. This need for Western currencies is met by criminal organizations that hand their criminal money over to the underground banker in exchange for a payment by the banker in another location or country. Criminal investigations in various countries show Chinese underground bankers' networks accepting cash from criminals and using it to settle outstanding balances for Chinese residents.

In the United Kingdom, for example, cash is deposited into bank accounts held by Chinese students studying in the UK who make their account available, either directly or indirectly, to the underground banker. In one case, a CMLO was able to gain control of 600 student bank accounts. The methods used by CMLOs are similar to those found in other underground bankers' networks. Money is handed over in public spaces, for instance, and 'tokens' are often used for physical handovers of cash. One commonly used token is a small denomination banknote with a unique serial number. This token is used by the recipient of the money to confirm their identity to the person disbursing the money, and also serves the latter as a proof of payment. Further, the underground bankers keep ledgers (often handwritten) to record the handovers that take place and the exchange rates applied. Another method encountered in handovers by CMLOs is the sharing of postcodes for the handover locations. Communication mainly takes place via WeChat, a popular Chinese messaging app that is used in China for a wide range of products. In China, WeChat is integrated into businesses and public services, and is often referred to as a super app, indispensable for services such as booking a taxi, buying airline tickets, communicating with businesses or public services, or carrying out transactions using WeChat Pay.

In addition to moving money by means of underground banking, the CMLOs' informal value transfer system also includes the phenomenon known as Daigou: goods (often luxury goods) are purchased in Europe, often for cash, and subsequently sold on in China.

3. Daigou

Daigou⁴ is a Chinese term that roughly translates as: 'buying on behalf of'. This is a widespread phenomenon in Chinese communities outside China, entailing members of the community buying goods (usually outside China) for third parties in China.

⁴ In Chinese: 代购, Dai = replace, Gou = buy; pronounced daɪ.gou.

In China, the growing economy has fuelled a large demand for luxury goods. Due to various factors, both economic and psychological, these luxury goods are often purchased abroad. Prosperous Chinese citizens often have their purchases of luxury goods from abroad arranged by Daigou.

One of the main reasons that Daigou find a receptive market in China lies in the price differences between China and Europe. The products that Daigou offer are purchased outside China and then smuggled into the country to avoid the high import taxes on luxury goods. Daigou are mainly engaged to purchase luxury branded cosmetics, leather goods, watches, and jewellery in Western countries. Since Daigou seems to be highly lucrative, there are many Chinese citizens in the West who engage in this trade. The price gap between China and Europe can, according to Bain & Company consultants, run as high as 40%. In addition, they estimate that 30% of luxury goods purchases by Chinese citizens occur outside China.⁵

Many wealthy Chinese citizens have little confidence in the genuineness of articles from China, which may also prompt them to purchase their luxury goods abroad. Other reasons include the fact that high end quality and more exclusive items are difficult or impossible to obtain in China.

An article in the Dutch daily *Financieele Dagblad* in August 2024⁶ reports that Bain & Company calculated that in 2015 the value of luxury goods entering China in this way from all over the world lay between USD 4.5 and USD 6.5 billion. Strict travel restrictions during the COVID-19 pandemic, per-person purchase limits imposed by designer stores, and lower import tariffs were expected to lead to a reduction in such parallel imports. However, the opposite appears to be the case: a significant growth in Daigou has been observed since the COVID-19 pandemic. This growth is probably driven by the increasing professionalization and expansion of Daigou. Consultants from Re-Hub estimate that the market has continued to grow over the years, with the total estimated import value into China by Daigou in 2023 amounting to USD 81 billion.⁷

In light of the abovementioned restrictions on currency transfers, it is extremely difficult for Daigou traders who are based outside China to get the proceeds of their goods trading out of China. For this reason, they frequently make use of underground bankers. Chinese purchasers of luxury goods pay for them by transferring money to a Chinese bank account controlled by an underground banker. As soon as they can show proof of payment, the Daigou trader in Europe is compensated by the underground banker, so that they also receive money deriving from criminal activity of some kind.

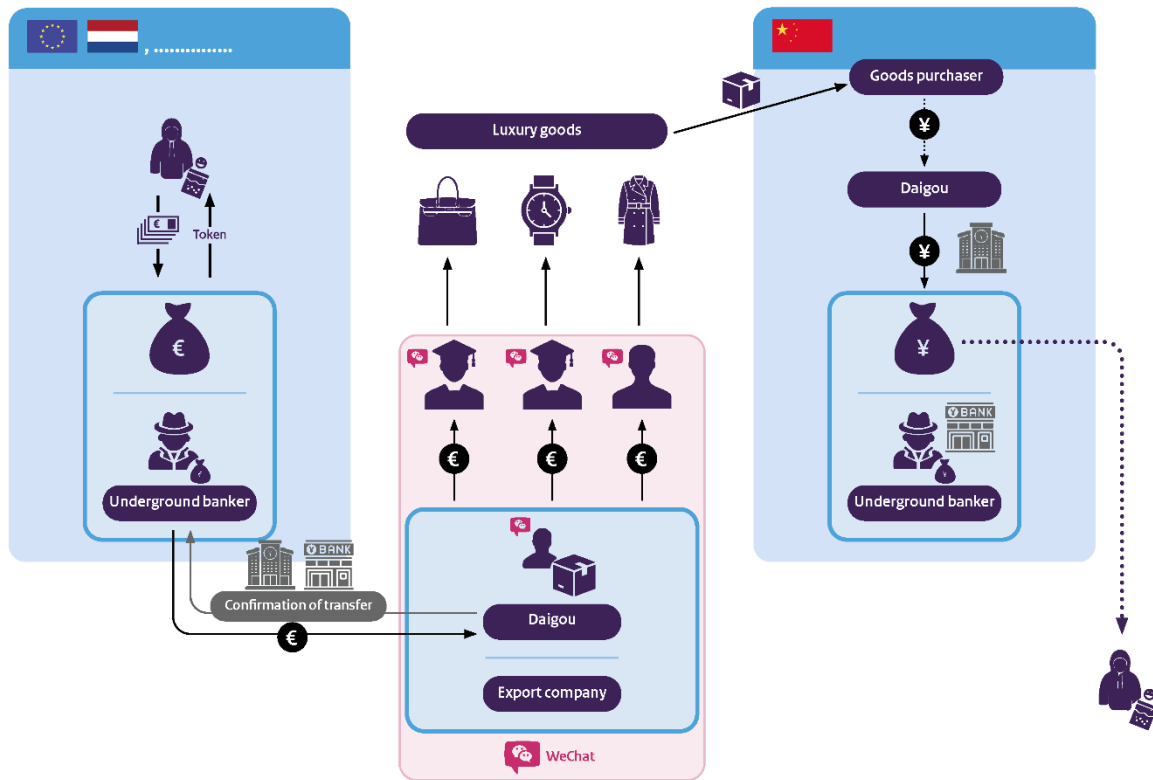
Criminal investigations reveal that underground bankers and couriers who have had money deriving from criminal activities put at their disposal by an organized crime group in turn make this money available to Daigou for the purchase of luxury goods. The Daigou trader (via network coordinators) makes use of Chinese students, for example, who, for a small fee, purchase the luxury goods and pass them on to the trader, who sends the goods to China by parcel post.

Below is a graphic representation of the interface between criminal underground banking and Daigou:

⁵ <https://www.bain.com/insights/2023-china-luxury-goods-market/>, consulted on 25 November 2024.

⁶ <https://fd.nl/bedrijfsleven/1526990/grijze-markt-in-china-extra-probleem-voor-luxehuizen> (in Dutch), consulted on 25 November 2024.

⁷ The Daigou Report 2024, September 2024, Re-Hub, on <https://www.rehub.tech/reports-and-cases/the-daigou-report-2024>, consulted on 25 November 2024.



- 1) In the Netherlands or another country outside China, a criminal organization puts criminally derived cash at the disposal of a CMLO;
- 2) The CMLO, for a commission, arranges a parallel transaction for the criminal organization at the location, and in the manner (cash, bank transfer, crypto), of the organization's choice. This parallel transaction allows the criminal organization that made the cash available to continue their operations, for example by buying new drugs worldwide;
- 3) The CMLO makes the criminally derived money (often cash) available to the Daigou;
- 4) The Daigou, for a commission, arranges a parallel transaction to a bank account in China of the CMLO's choice. These are transactions from one Chinese bank to another, or from one WeChat Pay account to either another WeChat Pay account or an account on a similar platform.
- 5) The Daigou uses the money received (often cash) to purchase goods, primarily luxury goods. These purchases are carried out either by themselves or by others, a significant proportion of whom are students or young adults;
- 6) The products bought in the West are sent by parcel post to purchasers in China, who pay for their products within China.⁸ The goods bought are usually collected by the Daigou, who then takes care of shipping, but sometimes the goods are sent directly by the shops to the final destination (or interim destination) in China;
- 7) The money in accounts at the disposal of the underground banker in China, deriving from the sale of the luxury or other goods in China, can be moved to other countries, such as countries where drugs are produced for export to the Netherlands, other European countries, or the United States.

⁸ The numbers, brands, types, and models are directly or indirectly tailored to the wishes of Chinese consumers.

In addition to moving money around, the money laundering process outlined above also ensures that the origins of criminal money are obscured.

It is extraordinarily difficult to obtain an accurate picture of the extent of Daigou purchases in which criminal money (cash or other) is involved. This is due to the hidden and complex nature of the illegal activities, which often involve anonymous transactions and intermingling with legitimate trade. Another factor is the international nature of the phenomenon, which hinders effective tracing.

4. Is Daigou a criminal offence?

In principle, buying luxury or other goods in the Netherlands and exporting them to China is permitted under Dutch law.⁹ Many of the Chinese nationals engaged in Daigou in the Netherlands have a ‘regular’ business, often a one-man business, and are registered with the Chamber of Commerce. However, if for their trade Daigou traders accept large sums of money, often in cash, for the purchase of luxury or other goods, and know or may reasonably suspect that this money derives from crime, they are guilty of money laundering (Section 420bis of the Dutch Criminal Code, Sr) or culpable money laundering (Section 420quater Sr), respectively. The aggravating circumstances of ‘habitual money laundering’ and/or ‘money laundering by way of a business or profession’ (Section 420ter Sr) may also apply here. The report by the NCA (2019) shows that there are indications that Daigou traders also commit tax offences. Further, Daigou traders may be guilty of the offences of participation in an organization that has as its object the commission of serious offences, such as money laundering and/or tax offences (Section 140 Sr).

The sums (often in cash) delivered to the Daigou by underground bankers or couriers also fall under money laundering typologies such as that drawn up by the Dutch Financial Intelligence Unit (FIU-Nederland)¹⁰, other generally known facts, and other money laundering indicators¹¹. These money transfers often reveal the same indicators listed in the same money laundering typologies encountered in other investigations into criminal underground banking:

- The presence of large quantities of cash without this being necessary for reasons of business or profession.
- The presence of large amounts of money in small denominations (drug trafficking often results in small denominations).
- The physical transport of large sums of cash, although this poses a considerable security risk.
- The manner in which the money is transported and/or provided:
 - o Cash being transported in unusual ways, such as hidden in materials not intended for the transport of money, such as handles or pull-out handles of suitcases, packs of diapers, bottles of shampoo, wrapped in panty hose and hidden under clothing, or hidden in the body.
 - o Sums of money in stacks of 100 banknotes, held together by elastic bands, which are in turn bundled together into sets of one hundred stacks. This is characteristic of the bundling of criminal money.
- The following characteristics, or a combination of them, are indicators of criminal money flows:
 - o Money is handed over in a public place rather than at a fixed location.

⁹ Any evasion of import duties is only picked up on (if at all) in China.

¹⁰ <https://www.fiu-nederland.nl/typologieen/> (in Dutch), consulted on 25 November 2024.

¹¹ Money laundering indicators of the Anti Money Laundering Centre, <https://www.amlc.nl/witwassen/witwasindicatoren/> (in Dutch), consulted on 25 November 2024.

- A number/token is used when handing over money; identities are not known.
- The money handover takes place between different nationalities rather than within the same ethnic group.
- There are language barriers in play.
- The sums of money handed over are large.
- Communication involves veiled use of language.
- Book-keeping is minimal or non-existent, and no names are stated.
- Money couriers are used for money handovers, rather than the handover occurring at a fixed location.
- Clients often have criminal antecedents.