FLYING OUT OF AFRICA

Chinese 'flying money', or fei qian, is an ancient form of value exchange. But its modern incarnation is blamed for stripping Africa of its resources

John Grobler

The secret of Chinese commercial success in Africa, as suggested by an 18-month investigation into the drugs-for-abalone and rosewood trade and a major Namibian tax fraud case, is an ancient system that not only allows African countries to be robbed of taxes, but also plays a part in financing the global $270bn-a-year wildlife contraband trade.

Fei qian, or "flying money", dates back about 1,200 years, to the Tang Dynasty in China. In its simplest modern incarnation, it is a low-cost and trusted method of remitting money, much like the Islamic hawala system. For example, a person who wants to send funds to a recipient in Africa will pay a fei qian broker in China. For a commission, the broker will arrange that a counterpart in Africa pays the recipient, again for a commission. The two fei qian brokers later settle their account through, for example, the transfer of commodities of equivalent value — but also sometimes through less salubrious methods such as transfer mispricing or invoice manipulation.

In practice, the system relies on the systematic underinvoicing of Chinese imports into Africa and a seamless chain of payments system in which accounts are settled through the transfer of high-end — and often illicit — goods such as abalone, rosewood, rhino horn and ivory. In brief: goods are undervalued on their import documentation; they are then sold for cash; and that undeclared cash is subsequently channelled into high-end commodities that are remitted to China to balance the fei qian books.

"The trick behind fei qian is that the money never actually leaves China," says a former Singaporean finance expert, speaking on condition of anonymity. "It's just the commodities that get moved around" as part of a longer payment chain among the Chinese diaspora.

Unlike barter trade, fei qian is not a straight swap; it is an exchange in stored value that leaves no paper trail, except in the books of the fei qian operators themselves. What makes the system even more impenetrable, the investigation has found, is that these operators mostly seem to be older, well-established women working in a closed network of mutually trusted contacts.

This nexus, and lack of paper trail, means fei qian is largely invisible. But it occasionally appears as a gaping hole in a country's balance of payments account with China — as Namibia has discovered in an ongoing import-tax fraud investigation.

Jack Huang, a business associate of President Hage Geingob, and Laurentius Julius, a former Walvis Bay customs official and now a customs clearing agent, are among eight suspects facing 3,215 charges of fraud and money laundering in the Windhoek high court.

The first suspects were arrested in December 2017. Huang's arrest followed months later, after the finance ministry discovered a discrepancy between the declared value of imported goods and the actual remittance of payments to China in the custom clearing activities of Julius and Huang.

According to a former colleague, Julius used his knowledge and access as a former customs official to help his Chinese clients evade taxes. They allegedly imported cheap clothes disguised as rolls of material instead of as finished garments, which carry a higher value and sell at a higher price.

The state charges that the suspects had, from 2013 to 2016, imported a declared R213.4m in goods from China while remitting payments exceeding R3.1bn for them, thereby defrauding Namibia by misrepresentation and money laundering.

Huang and Julius may have been the face of this alleged enterprise, but a source in the local Chinese community says four elderly women charged alongside them were the real fei qian operators. One suspect has since died in China, another has absconded, and the other two have pleaded not guilty to all charges and are out on bail.

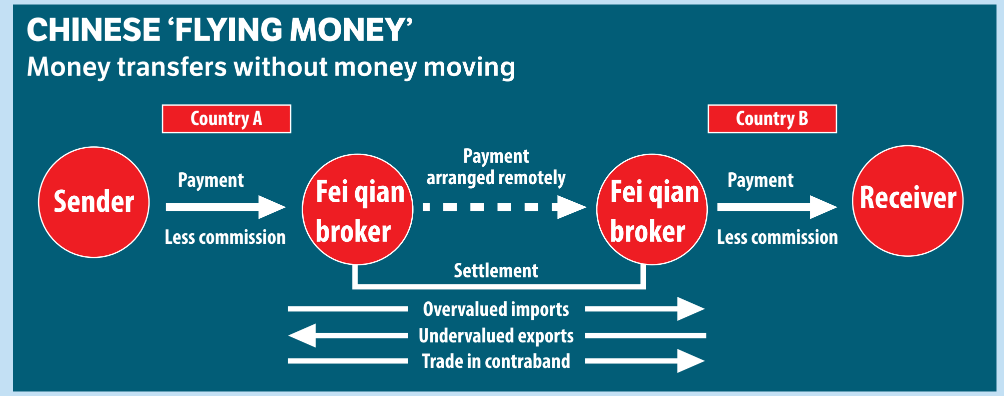
China's official representative in Windhoek was unwilling to discuss fei qian for the purpose of this article, declining two such direct requests.

Over the past 10 years, fei qian has morphed into something more dangerous, becoming increasingly linked to the surging contraband trade in wildlife, especially in the wake of a shortage of hard currency. In particular, it's visible in the smuggling of hardwood from African countries that have deep forest resources but nonconvertible currencies, weak administration and entrenched corruption, and where poverty is prevalent.

For example, when the oil price collapsed in 2014, foreign banks refused to sell US dollars to Angola until all outstanding debts had been settled. As a result, some Chinese traders in that country started converting their worthless kwanza to rosewood logs that were (mostly) smuggled via Namibia to China, where they were sold for very convertible yuan.

Closer to home, fei qian seems to be at the heart of the multibillion-rand drugs-for-abalone trade in SA. The nonlinear payment system has so far defeated all attempts to link intercepted shipments and Chinese buyers, who have allegedly been operating in the Western Cape since the early 1990s.

"How do the poachers get paid for hundreds of tons of abalone?" asks Marcel Kroese, an international fisheries consultant and former head of enforcement at the directorate of agriculture, forestry & fisheries.



During his stint at the directorate, the members of just one syndicate were convicted, and then only for an elaborate VAT scam, despite huge amounts of cash evidently being passed around. And trying to follow the money to identify the main Chinese players proved fruitless. "We could never find the [source of] money," says Kroese.

In Africa, contraband finds its way into the fei qian payment chain in the way small Chinese traders traditionally operate on the continent: cash only — and most of it off the books. In practice, it amounts to tax fraud: underdeclared cheap goods are then sold for unreported cash.

Once the goods have been sold, the proceeds are typically used to buy a high-value and often illicit local commodity — sometimes through a syndicate, to spread the risk of confiscation, a well-placed Chinese source says. What makes this form of fei qian so suited to smuggling is that the product — contraband — is fungible: every kilogram of rhino horn, ivory, abalone and shark fin, or log of hardwood can be divided into smaller parts, which are more easily traded. This ease of exchange has in turn boosted the value of the product. Rhino horn, for example, has at times been more expensive, by weight, than gold.

And so the circle goes. Once the initial investment returns to China, it is doubled by buying cheap goods, again on a syndicated, wholesale basis, which are exported to Africa, again at underdeclared value. And with that comes another round of profit that is remitted to China through the fei qian network.

The seamless nature of global trade and the huge volumes of shipping containers that are handled each day allow fei qian businesses to hide in the open, shifting shipping containers carrying contraband around like hard currency between Africa and the Far East.

Each year, millions of containers are stored at, and pass though, transshipping ports such as Coega in SA, Dubai in the United Arab Emirates, Tanjung Pelepas and Kelang in Malaysia and Hong Kong — ports where containers are offloaded and loaded onto new ships without passing through customs checks. It means a container could pass through half a dozen owners' hands, in as many countries, without customs oversight.

And, though it's expensive to change bills of lading and shipping destinations at sea or in port it is a common practice, says a veteran Walvis Bay-based shipping agent. A middleman may switch the bill of lading to hide the origin of goods, for fear his client will discover who his supplier is and cut him out of the equation.

Customs officials do often red-flag shipments from suspect ports, but the sheer volume of containers passing through transshipment ports is so enormous that this amounts to finding a single needle in six mega-haystacks.

"If you know the shipping routes, as any halfway decent shipping agent would, you could play ping-pong with that container [of contraband] between the transshipment ports forever," says the shipping agent.

Some countries are becoming wise to fei qian, adapting their systems to mitigate losses. For example, Angola now prevents any exports of raw material to China unless the exporter can prove the funds used entered the country via a bank account, says Angolan business person Stefan van Wyk.

But the nature of fei qian — no paper trail, off-the-books earnings, containers of contraband passing through transshipment ports — means it will be difficult to disrupt the system properly. According to a senior state prosecutor in SA, the only way to enforce the law is to crack down on the associated cash-only business practices. Nailing these enterprises for undeclared income may be the simplest and most cost-effective way to arrest the cycle. After all, income tax evasion is what brought down US mob boss Al Capone. x

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