

A Criminal Haven:
The Tri-Border Area of South America

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I. Introduction

In a speech to the Council of the Americas Conference on May 6, 2002, Vice President Dick Cheney said that “we’re on the watch for terrorist activity in Latin America, particularly in the tri-border region of Argentina, Brazil and Paraguay.”¹ Nearly sixteen months later, Federal Bureau of Investigation (F.B.I.) Director Robert Mueller elaborated on Vice President Cheney’s comments by noting that al-Qaida “has a presence in the Tri-Border Region in South America” in a speech at a border terrorism conference in San Antonio, Texas.² Director Mueller went on to illustrate the security risk posed by criminals and terrorists in the region by saying, “we all know that it is not too difficult to get a tourist VISA and come into the U.S. across the border.”³

Many scholars point out that despite these statements, the Bush Administration and U.S. government have overwhelmingly focused their counterterrorism efforts on the regions of the Middle East and South Asia over the past eight years.⁴ The wars in Afghanistan and Iraq corroborate such assertions. In fact, the statements by Vice President Cheney and Director Mueller suggest that the U.S. government has been overly zealous in its localized pursuit of terrorist organizations in the Middle East and South Asia and largely unaware of the equally dangerous threat that transnational criminals pose to global stability. Although terrorist and criminal organizations in Afghanistan and Iraq have and continue to pose serious threats to the national security of the U.S. and other countries, equally threatening transnational criminal organizations have greatly expanded operations over the past two decades in other regions of the

¹ The White House, *The Vice President Delivers Remarks to the Council of the Americas Conference* (Washington, DC: 2002), <http://georgewbush-whitehouse.archives.gov/vicepresident/news-speeches/speeches/>.

² Federal Bureau of Investigation, *Major Executive Speeches* (Washington, DC: 2003), <http://www.fbi.gov/pressrel/speeches/speech090803.htm>.

³ Ibid.

⁴ Michael Reid, *Forgotten Continent: The Battle for Latin America’s Soul* (New Haven: Yale University Press, 2007), 1.

world.⁵ One region where terrorist and criminal organizations have thrived is the Tri-Border area (TBA), also known as the “Triple Frontier,” an area straddling the borders of Brazil, Paraguay, and Argentina. Due to the presence of weak government institutions, weak border control, and government corruption in the TBA, it has been and is still used as a safe haven for organized criminals and terrorists to conduct illicit activities such as drug and weapons trafficking, money laundering, and the smuggling of various commodities.

II. Background and Demographics

The heart of the TBA lies over 200 miles east of the Paraguayan capital, Asunción, a region where the borders of Paraguay, Brazil, and Argentina meet. The Paraná and Iguazú Rivers form the borders of the three states and separate Ciudad del Este, Paraguay from Foz do Iguaçu, Brazil and Puerto Iguazú, Argentina. Ciudad del Este is the second largest of the three cities with a population of nearly 250,000, making it the second largest city in Paraguay behind Asunción.⁶ Due to its size and strategic location, Ciudad del Este is a major commercial outpost for Paraguay and according to Argentine criminal lawyer Ana Sverdlick, the city ranks as the “third largest commercial city in the world, only surpassed by Hong Kong and Miami.”⁷ Much of the trade and commercial goods that flow through Ciudad del Este do so through informal means because the Paraguayan market economy is driven by a large informal economy.⁸ The large informal economy relies on the re-export of consumer goods to neighboring countries, in addition to the “activities of thousands of microenterprises and urban street vendors,” making

⁵ Louise Shelley, “The Unholy Trinity: Transnational Crime, Corruption, and Terrorism,” *The Brown Journal of International Affairs* 11, no. 2 (2005): 101.

⁶ Ana R. Sverdlick, “Terrorists and Organized Crime Entrepreneurs in the ‘Triple Frontier’ among Argentina, Brazil, and Paraguay,” *Trends in Organized Crime* 9, no. 2 (2005): 85.

⁷ Ibid.

⁸ Central Intelligence Agency, *The 2008 World Factbook, Paraguay* (Washington, DC: 2009), <https://www.cia.gov/library/publications/the-world-factbook/geos/pa.html>.

Ciudad del Este a convenient outpost.⁹ The economic boundaries in the city mainly run along ethnic lines. Ciudad del Este has a diverse population, largely due to the arrival of Shi'a Lebanese immigrants during the late twentieth century.¹⁰ In addition to the Lebanese community, the city is home to Chinese, Taiwanese, Korean, Syrian, and Palestinian immigrants.¹¹ According to Sverdlick, the Chinese community mainly deals with the trade of “electronics, toys and bazaar,” whereas the Arab community “deals with textiles, computers, guns, prostitution, and information technology.”¹²

Just east of Ciudad del Este across the Puente Internacional de la Amistad (also known as the “Friendship International Bridge”) lies the Brazilian city of Foz do Iguaçu with a population of around 300,000.¹³ Although the Brazilian economy has experienced a relative boom in recent years, much of the country’s population relies heavily on the informal economy. Due to its proximity to Ciudad del Este, Foz do Iguaçu’s informal economy is strongly intertwined with Ciudad del Este, which is evident by the nearly “30,000 to 40,000 people and 20,000 vehicles” that cross the Friendship International Bridge on a daily basis.¹⁴ Demographically, the city has a large Arab population, a majority of whom are of Palestinian and Lebanese descent.¹⁵ Much of the Arab community in Foz do Iguaçu is closely related to the Arab community of Ciudad del Este, fueling strong commercial ties between the cities.

The third major city situated within the TBA is Puerto Iguazú, Argentina. Located south of Foz do Iguaçu across the Iguazú River, the city has a population of nearly 30,000 and relies economically on the tourism industry which is driven by the nearby scenic attraction, Iguazú

⁹ Ibid.

¹⁰ Augustus Richard Norton, *Hezbollah: A Short History* (Princeton: Princeton University Press, 2007), 13-14.

¹¹ Sverdlick, “Terrorists and Organized Crime Entrepreneurs,” 86.

¹² Ibid.

¹³ Rex Hudson, *Terrorist and Organized Crime Groups in the Tri-Border Area (TBA) of South America* (Washington, DC: Library of Congress - Federal Research Division, 2003), 7.

¹⁴ Ibid, 11.

¹⁵ Ibid, 9.

Falls.¹⁶ Despite the business generated from tourism, Puerto Iguazú has been working to recover from the financial crisis that occurred in Argentina during the early 2000s. Following the onset of the economic collapse, Puerto Iguazú was one of the hardest hit locations in Argentina.¹⁷ The financial crisis caused the Brazilian Real (currency) to fall by 30 percent, resulting in tourists visiting Iguazú Falls to move “to cheaper restaurants and hotels on the Brazilian side of the border, forcing businesses in Puerto Iguazú to close.”¹⁸ Although the Puerto Iguazú and Argentine economies have experienced growth in recent years, the city today remains a precarious location to do business due in part to its location in the TBA. Unlike the populations of Ciudad del Este and Foz do Iguazú, Puerto Iguazú has a fairly homogenous population of ethnic Argentines. As a country, Argentina has very large Muslim and Jewish populations, particularly in and around the capital of Buenos Aires. But a majority of the Muslim and minority populations in the TBA reside in Ciudad del Este and Foz do Iguazú. Rex Hudson of the Library of Congress’ Federal Research Division notes that Arab immigrants of the two cities “generally avoid visiting Puerto Iguazú because they reportedly do not feel welcome there and are regarded suspiciously by Argentine security officials.”¹⁹

The economies of Ciudad del Este, Foz do Iguazú, and Puerto Iguazú are heavily intertwined due to their geographic proximity. The larger and more diverse populations of Ciudad del Este and Foz do Iguazú have made them the center of the majority of illicit activities that occur in the TBA. But with the development of the Common Market of the South (Mercosur), a free trade bloc consisting of select South American countries, the borders between Paraguay, Brazil, and Argentina have become more open, making it easier for citizens to obtain

¹⁶ Ibid, 7.

¹⁷Anthony Faiola, “Argentina Economy Dives, Setting Off Investor Panic; Drop in Tax Revenues Brings Fears of Devaluation,” *The Washington Post*, October 6, 2001, sec. A25.

¹⁸ Ibid.

¹⁹ Hudson, *Terrorists and Organized Crime Groups*, 8.

resident visas.²⁰ In fact, the U.S. Army's Lieutenant Colonel Philip Abbott notes in a 2002 *Military Review* article that Mercosur countries signed an agreement permitting "inspection-free transportation of commercial containers" between member countries.²¹ The exceedingly porous borders have made the TBA an ideal location for transnational criminals to engage in illicit activities. One of the illicit activities that terrorists and criminal organizations have and continue to engage in is drug and weapons trafficking.

III. Drug and Weapons Trafficking

In an essay in Kimberley Thachuk's *Transnational Threats*, André Hollis notes that after the attacks of September 11, 2001, "U.S. leaders began to call for increased attention and effort to combat terrorist financing, including drug trafficking."²² As a result of its loose border control and proximity to the foothills of the Andean Ridge, the TBA is a region that has received attention from law enforcement authorities for its role in drug trafficking. But with the recent rise in violence and activity from drug organizations and cartels in Mexico and Colombia, the TBA is at risk of being overlooked.

As law enforcement authorities have focused their efforts to stamp out cartels in Colombia over the past couple of decades, drug traffickers and organizations have looked to expand their operations beyond Colombia and the northern Andes. One of the terms used to describe such an expansion of operations is the "cockroach effect."²³ As a result of the focus put

²⁰ Philip K. Abbott, "Terrorist Threat in the Tri-Border Area: Myth or Reality?" *Military Review* (September – October 2004): 53.; Full Mercosur members include Uruguay, Argentina, Paraguay, and Brazil.

²¹ Ibid.

²² André Hollis, "Narcoterrorism: A Definitional and Operational Transnational Challenge," in *Transnational Threats: Smuggling and Trafficking in Arms, Drugs, and Human Life*, ed. Kimberley L. Thachuk (Westport: Praeger Security International, 2007), 25.

²³ William Booth and Steve Fainaru, "An Army Takeover Quells Violence in Mexico," *The Washington Post*, April 21, 2009, <http://www.washingtonpost.com/wp-dyn/content/article/2009/04/20/AR2009042003479.html?sid=ST2009042100751>.

on Colombia, drug traffickers have a heavier presence in the TBA. In 2006, it was reported that the Argentine city of Misiones, which is located south of Puerto Iguazú, had become a “new base on the smuggling route for drugs obtained in Paraguay.”²⁴ It was noted that Misiones is convenient because of its location to the border.²⁵ As a result, criminals use the area “to exchange cocaine for weapons,” which are often “destined for paramilitary groups,” possibly even for Revolutionary Armed Forces of Colombia (FARC) members based in Paraguay and Brazil.²⁶ The revelation of trafficking and smuggling operations in the region led Brazil and Paraguay to sign a memorandum of understanding (MOU) for “cooperation in fighting the illicit manufacture and trafficking of firearms, ammunition, explosive accessories, and other associated materials” in November 2006.²⁷ Although the MOU recognizes the threat that organized crime poses in the region and how it has become more transnational, the effectiveness of the MOU is questionable since it did not focus on the tie that drug trafficking has to weapons trafficking in the TBA.²⁸

Increasingly, drug traffickers in the TBA exploit lax border control in the region by using the trade of commercial goods between Paraguay, Argentina, and Brazil to hide drug and weapons trafficking activities. In May 2008, Brazilian authorities seized “4.5 tons of marijuana that had been hidden under 1.5 tons of rice in a wagon parked in a warehouse” in Rio de Janeiro, Brazil.²⁹ The drugs were reportedly smuggled by an organization known as “Friends of Friends” (ADA), who drove the load of marijuana, along with “12 gauge shotguns and 50 boxes of

²⁴ *BBC Monitoring Latin America*, “Misiones in Argentina reportedly new base for Paraguay-Brazil drug trade,” September 6, 2006, <http://www.lexisnexis.com>.

²⁵ *Ibid.*

²⁶ *Ibid.*

²⁷ *BBC Monitoring Latin America*, “Brazil, Paraguay sign agreement to combat arms trafficking,” November 29, 2006, <http://www.lexisnexis.com>.

²⁸ *Ibid.*

²⁹ *BBC Monitoring Latin America*, “Brazilian police seize 4.5 tons of marijuana in rice cargo,” May 1, 2008, <http://www.lexisnexis.com>.

ammunition,” from Paraguay into Brazil via Foz do Iguaçú.³⁰ The ability of ADA to transport such a sizeable load of drugs and weapons illustrates the relative ineffectiveness of customs officials in both Paraguay and Brazil in the TBA. In addition, the seizure demonstrates how the lawlessness of the TBA may be indirectly fuelling drug organizations that work in the *favelas* of both Rio de Janeiro and São Paulo, Brazil.³¹ Hudson points out that criminal and terrorist-backed drug trafficking organizations travel through Ciudad del Este and Foz do Iguaçú when shipping cocaine along the Bolivia-Paraguay-Brazil corridor to the “ports of Paranaguá, Santos, and Rio de Janeiro on the Atlantic coast of Brazil.”³² The ease with which transnational criminals move drugs and arms freely through the region poses a threat to the stability and security of Brazil and drug-destined countries on the eastern side of the Atlantic.

IV. Money Laundering

Due to its role as a haven for drug and weapons trafficking, the TBA is a popular location for money launderers. The region’s weak border control and corrupt officials have permitted money laundering activity and enabled criminals to operate without fear of punishment. Sverdlick points out that “Foz do Iguaçú is considered the main center for money laundering, followed by Ciudad del Este, but surprisingly not Puerto Iguazú.”³³ The lack of money laundering in Puerto Iguazú may be a result of the instability experienced in the Argentine financial system in recent years, making both Foz do Iguaçú and Ciudad del Este more attractive locations for criminals. In addition, the ethnic communities of both Foz do Iguaçú and Ciudad

³⁰ Ibid.

³¹ *Favelas* is the Brazilian term used to describe shanty towns located in and around Brazilian urban areas. *Favelas* are typically known for their extreme poverty and high criminal activity.

³² Hudson, *Terrorist and Organized Crime Groups in the Tri-Border Area*, 28.

³³ Sverdlick, “Terrorists and Organized Crime Entrepreneurs,” 87.

del Este are both heavily involved in facilitating laundering activities.³⁴ The scope of the problem in the TBA is detailed in the U.S. Department of State's *2009 International Narcotics Control Strategy Report (INCSR)*, which notes that Paraguay is a "principal money laundering center" primarily due to the TBA and the fact that Ciudad del Este "represents the heart of Paraguay's underground or 'informal' economy."³⁵ The *INCSR* indicates that in addition to illicit trafficking and government corruption, "weak controls in the financial sector," bearer shares, casinos, the presence of numerous exchange houses, and "cross border transportation of currency and instruments" all contribute to the TBA's attractiveness for money launderers.

One example of the severity and scope of the cross-border problem in the TBA is the fact that high-ranking officials in the Paraguayan government have been suspected of laundering money in the region. In July 2000, it was reported that the Brazilian Federal Police (PF) uncovered that "former Paraguayan General Lino Oviedo" had "laundered about US\$10 million through money transfer operations from Foz do Iguacu to Ciudad del Este."³⁶ According to the PF, General Lino Oviedo transferred his money from the "Corsa Assessoria Comercial Limited Corporation in Foz do Iguacu to Corsa Financial Company in Ciudad del Este."³⁷ In transferring these funds, the companies used CC-5 accounts to handle the transactions, which is typically a licit means of transferring finances, but is illicit when transferred using front men and companies.³⁸ Hudson points out that the CC-5 account, an account that belongs to someone

³⁴ Moisés Naím, *Illicit: How Smugglers, Traffickers, and Copycats are Hijacking the Global Economy* (New York: Doubleday, 2005), 142.

³⁵ U.S. Department of State, *2009 International Narcotics Control Strategy Report (INCSR): Volume II, Money Laundering and Financial Crimes* (Washington, DC: 2009), 397-398.

³⁶ *BBC Summary of World Broadcasts*, "Paraguay's former General Oviedo suspected of laundering 10m dollars," July 26, 2000, <http://www.lexisnexis.com>.

³⁷ *Ibid.*

³⁸ *Ibid.*

residing outside of the country, appears to be the most popular “financial mechanism” for laundering money in the TBA because the accounts are easy to open using false identification.³⁹

In total, it is estimated that nearly US\$12 billion is laundered through the TBA every year, though precise estimates are difficult to obtain.⁴⁰ The damage caused by money laundering in the region is hard to calculate, but is likely quite substantial. John McDowell and Gary Norvis iterate in a paper on money laundering that it “can erode the integrity of a nation’s financial institutions” affecting currency exchange rates, interest rates, and capital markets around the world.⁴¹ In addition, they mention that in emerging markets “illicit proceeds may dwarf government budgets, resulting in a loss of control of economic policy by governments.” McDowell and Norvis’ words symbolize not only the threat that money laundering in the TBA poses to the developments of Paraguay, Argentina, and Brazil, but also to the stability of the global financial system. In addition to tightening border control, fighting government corruption, and instituting stricter bank and financial laws, the governments of all three countries need to control the illicit economy of the TBA. Unfortunately, the task of controlling the illicit economy is formidable due in part to its prevalence.

V. Commodities Smuggling and Piracy

The rise in globalization and technology has led to an expansion of commodities smuggling and piracy. In her book *Global Outlaws*, Carolyn Nordstrom discusses the scope of the problem through her firsthand accounts of illicit cigarette, diamonds, and commodities

³⁹ Hudson, *Terrorist and Organized Crime Groups in the Tri-Border Area*, 51.

⁴⁰ Ibid.

⁴¹ John McDowell and Gary Norvis, “The Consequences of Money Laundering and Financial Crime” in “The Fight Against Money Laundering,” *Economic Perspectives* 6, no. 2 (May 2001), quoted in Carol Nordstrom, *Global Outlaws: Crime, Money, and Power in the Contemporary World* (Berkeley: University of California Press, 2007), 168.

trading across the porous borders in Africa. Nordstrom suggests that “the sum of all extra-legal activities represents a significant part of the world’s economy and politics.”⁴² The ineffective governance of the TBA along with its porous borders makes it an ideal location for both commodities smuggling and piracy. Dr. Louise Shelley et al. notes that illicit commodities are trafficked through the TBA by local criminal organizations related or affiliated to Hong Kong-based criminal organizations, Hizballah, Hamas, and the FARC.⁴³ By some estimates, nearly 60 percent of Ciudad del Este’s income is a result of illicit smuggling.⁴⁴

Some of the frequently smuggled commodities in the TBA range from various electronics, such as CDs, to diamonds to stolen automobiles. Hudson notes that automobile smuggling through the TBA is a ‘booming business’ and that in mid-2001, “an Argentine security official stated that an average of 6,000 automobiles are illegally taken out of Argentina every year” and usually are sent to either Bolivia or specifically Ciudad del Este, Paraguay.”⁴⁵ A large number of the stolen cars that end up being smuggled to either Ciudad del Este or Foz do Iguaçu are stolen in Buenos Aires, Argentina and driven to the TBA, at which point they are either sold on the black market or used as personal vehicles by criminals.⁴⁶ In addition to the smuggling of automobiles, a walk in the street markets of Ciudad del Este reveals the large array of commodities that are sold illegally there on a daily basis. In a recent article from *GOOD Magazine*, Sacha Feinman describes the many contraband items that she saw being sold on the streets of Ciudad del Este during a recent visit to the city. Feinman notes that kiosks selling pirated DVDs, “Startar” jackets, Barbie dolls, clothes, and jewelry flank legitimate restaurants

⁴² Carolyn Nordstrom, *Global Outlaws: Crime, Money, and Power in the Contemporary World* (Berkeley: University of California Press, 2007), xvi-xvii.

⁴³ Dr. Louise I. Shelley et al., “Methods and Motives: Exploring Links between Transnational Organized Crime & International Terrorism,” funded in part by U.S. Department of Justice, June 23, 2005.

⁴⁴ Misha Glenny, *McMafia* (New York: Alfred A. Knopf, 2008), 282.

⁴⁵ Hudson, *Terrorists and Organized Crime Groups*, 56.

⁴⁶Ibid.

and businesses in downtown Ciudad del Este.⁴⁷ According to Feinman, smugglers typically buy pirated and illicit commodities in Ciudad del Este and either transport them through Brazilian customs or wait until customs police on the Friendship International Bridge has thinned to scramble across the bridge and once near the end use “long nylon ropes that dangle from the railing” to lower the illicit goods to fellow smugglers on the ground in Brazil.⁴⁸

The piracy of DVDs and films is considered to be one of the most booming illicit businesses in the TBA. An April 2009 report from the RAND Corporation details the growth of the industry. According to RAND, Hizballah-related criminal networks in the TBA have taken advantage of Paraguay’s lax copyright, trademark, and patent laws to pirate DVDs, CDs, and films because of the high-payoff and low-risk associated with the business.⁴⁹ The report mentions that one of the networks engaged in violating Intellectual Property (IP) laws, the Barakat network, has engaged in piracy since its inception and has used some of the funds to “raise substantial money for Hizballah.”⁵⁰ The Arab community in the TBA, particularly Ciudad del Este, has also been accused of “pirate” radio broadcasting.⁵¹ In September 2004, it was reported that out of the 40 stations that were being broadcasted on the FM band in the region, “of these about 30” were broadcasted illegally from in and around Ciudad del Este.⁵² The motives for such radio pirating were reported to be to either make “money out of cheap advertising” or to evade taxes.⁵³ The insufficiency and inability of the Paraguayan, Brazilian, and Argentine governments to control such piracy and smuggling within the TBA facilitates the ease with

⁴⁷ Sacha Feinman, “Blacker-than-black Market,” *GOOD Magazine*, June 9, 2008, http://www.goodmagazine.com/section/Features/blacker-than-black_market.

⁴⁸ Ibid.

⁴⁹ Gregory F. Treverton et al., “Film Piracy, Organized Crime, and Terrorism,” funded by RAND Corporation Safety and Justice Program and the Global Risk and Security Center, March 2009, 75-82.

⁵⁰ Ibid.

⁵¹ *BBC Monitoring Latin America*, “Pirate radio in the tri-border area of Paraguay,” September 24, 2004, <http://www.lexisnexis.com>.

⁵² Ibid.

⁵³ Ibid.

which criminal organizations operate in the region. In addition to some of the previously mentioned criminal networks that are suspected to have been and continue to be operating in the TBA, many scholars have discussed the uniqueness of the TBA in its role as a region in which criminal and terrorist organizations cooperate and illicitly work together.

VI. Organized Crime & Terrorism Interaction

As indicated by Vice President Cheney's and Director Mueller's quotes in the introduction of this paper, law enforcement and intelligence agencies have been working to uncover states and regions that are suspected of harboring terrorists since the attacks of September 11, 2001. Naturally much focus has been put on regions in the Middle East and South Asia and the states that purportedly fund terrorist organizations, such as the Islamic Republic of Iran. But many scholars believe that since the fall of the Soviet Union in 1991, state-sponsorship of terrorist organizations has declined, forcing terrorists to look towards other means of finance.⁵⁴ As a result, terrorist organizations increasingly look towards secular and apolitical criminal organizations for funding. In the book *Global Organized Crime*, Professor Tamara Makarenko refers to the ties between terrorists and organized crime as the "crime-terror nexus," which consists of a fulcrum point at which some interests of terrorists and organized crime closely align.⁵⁵ Shelley et al. note that the TBA is a region where organized crime and terrorism converge in the pursuit of certain goals, which typically consist of "brief encounters rather than a sustained relationship, given that one group approaches the other to fulfill a specific

⁵⁴ Tamara Makarenko, "The Ties That Bind: Uncovering The Relationship Between Organised Crime and Terrorism," in *Global Organized Crime*, ed. Dina Siegel, Henk van de Bunt, and Damián Zaitch (New York: Springer-Verlag, 2004), 159.

⁵⁵ *Ibid*, 164.

requirement or service.”⁵⁶ It is further noted that “in most cases a nexus” such as that present in the TBA, “involves the criminals providing goods and services to terrorists for payments although it can work in both directions.”⁵⁷

The most scrutinized relationship involving criminals and terrorists in the TBA has focused on Hizballah’s activity in the region. Hizballah’s operations in the TBA became most apparent to law enforcement and intelligence officials following the 1992 bombing of the Israeli Embassy in Buenos Aires and the 1994 bombing of the Argentine Israelite Mutual Association (AMIA) in Buenos Aires, in which 32 and 86 people were killed, respectively.⁵⁸ Although the Argentine government has been largely unsuccessful at bringing those responsible for the bombings to justice, it has suspected for years that both bombings were facilitated by front organizations working for Hizballah out of the TBA.⁵⁹ Alberto Nisman, the Argentine prosecutor for the 1994 AMIA bombing, has asserted that the suicide bomber in the attacks, Ibrahim Hussein Berro, entered Argentina via the TBA days before the attack and proceeded to Buenos Aires to meet up with a group assembled by Hizballah’s former special operations chief, Imad Mughniyeh.⁶⁰ The planning and operation of both bombings are suspected to have received partial help in funding through front organizations in the TBA.⁶¹

In an essay on Hizballah’s global criminal operations, Michael P. Arena notes that it was discovered that Hizballah was profiting from criminals operating in the TBA in February 2000 when “Paraguayan authorities arrested Khalil Mehri, a Lebanese businessman,” in an apartment

⁵⁶ Shelley et al., “Methods and Motives: Exploring Links,” 37.

⁵⁷ Ibid.

⁵⁸ Michael P. Arena, “Hizballah’s Global Criminal Operations,” in *Criminal-States and Criminal-Soldiers*, ed. Robert J. Bunker (New York: Routledge, 2008), 130.

⁵⁹ Ibid.

⁶⁰ David Horovitz, “Argentinean prosecutor: This is not justice. Nisman feels ‘no sorrow’ at Mughniyeh’s death but would rather have seen him in court,” *The Jerusalem Post*, February 14, 2008, <http://www.lexisnexis.com>.

⁶¹ Arena, “Hizballah’s Global Criminal Operations,” 132.

in Ciudad del Este.”⁶² In searching Mehri’s apartment, authorities discovered “software with fund-raising propaganda for Hizballah’s Al-Muqawamah and Al-Shahid” organizations, which protect the families of martyrs, “along with money transfers to Canada, Chile, Lebanon, and the U.S. totaling over US\$700,000.”⁶³ In essence, Mehri had pirated computer software and CDs and then funneled his profits to Hizballah operations and organizations worldwide. In addition to Mehri, Arena further notes that officials soon discovered that the previously mentioned Barakat network, a criminal organization under the tutelage of Assad Barakat, was sending some of its profits from a front company situated in Ciudad del Este to Hizballah.⁶⁴

The Barakat network has attracted the most attention from U.S. and foreign law enforcement and intelligence authorities due to its expansive operations in the TBA. In June 2004, in announcing the designation of Barakat and his associates as terrorist financiers, Deputy Assistant Secretary Juan Zarate of the U.S. Department of the Treasury mentioned that Barakat had “used every financial crime in the book, including his business, to generate funding for Hizballah.”⁶⁵ According to the Treasury Department’s press release, Barakat had used his businesses “Casa Apollo and Barakat Import Export Ltda.” in Ciudad del Este as “front companies for Hizballah activities and cells.”⁶⁶ Hudson points out that one of Barakat’s associates, Sobhi Mahmoud Fayad, was arrested in the “Page shopping gallery in Ciudad del Este” in 2001 for sending large sums of money from Ciudad del Este to Lebanon on a daily basis.⁶⁷ Brazilian authorities arrested Barakat in 2002 in Foz do Iguacu and subsequently extradited him to Paraguay, where he is currently concluding a six and a half year sentence for

⁶² Ibid, 131.

⁶³ Ibid, 132.

⁶⁴ Ibid.

⁶⁵ U.S. Department of the Treasury, *Treasury Designates Islamic Extremist, Two Companies Supporting Hizballah in Tri-Border Area* (Washington, DC: June 10, 2004), <http://www.treasury.gov/press/releases/js1720.htm>.

⁶⁶ Ibid.

⁶⁷ Hudson, *Terrorists and Organized Crime Groups*, 72.

tax evasion.⁶⁸ The prospect of Barakat being freed in the near future highlights the continuing danger that the collaboration of organized crime and terrorism pose in the TBA and the need for stronger institutions in the region to enforce the rule of law.

In addition to criminals working with Hizballah operatives in the TBA, scholars and analysts have also highlighted potential activity by other terrorist organizations, such as Hamas and al-Qaida, in the TBA over recent years. Hamas is not believed to have an extensive presence in the TBA, but the large Arab populations of Ciudad del Este and Foz do Iguacu are suspected to contain a number of Hamas sympathizers who might be complicit in running front companies in order to raise funds for Hamas.⁶⁹ Shelley et al. note that known al-Qaida members, such as Khalid Sheik Mohammed, have spent time in the TBA for unknown reasons.⁷⁰ Mohammed, the mastermind behind the September 11 attacks, reportedly spent nearly 20 days in Foz do Iguacu.⁷¹ *The Washington Post* reported in 2003 that Brazilian military intelligence sources had indicated that al-Qaida leader Osama bin Laden even passed through the TBA in 1995, although the purposes of the reported travel are unknown and U.S. intelligence agencies have not corroborated the assertion.⁷² Such reports that al-Qaida has potentially been involved in working with criminals in the TBA symbolizes the danger that the region's lawlessness poses not only to Paraguay, Brazil, and Argentina, but to the global community as well. The weakness of government and law enforcement institutions in the region have facilitated the increasing danger in the TBA and, in conjunction with public corruption, could make the TBA an increasingly

⁶⁸Ibid, 71.; U.S. Department of Treasury, *Treasury Designates Islamic Extremist*.

⁶⁹ Mark P. Sullivan, "Latin America: Terrorism Issues," *CRS Report for Congress* (Washington, DC: August 27, 2008), 3.

⁷⁰ Shelley et al., "Methods and Motives: Exploring Links," 63.

⁷¹ Ibid.

⁷² *The Washington Post*, "Bin Laden Reportedly Spent Time in Brazil in '95," March 18, 2003, sec. A24.

attractive destination for criminal organizations and terrorists to operate.

VII. Failing Institutions and Public Corruption

The TBA's role in harboring transnational criminals is exacerbated by the inability of the Paraguayan, Brazilian, and Argentine governments to effectively enforce the rule of law in the region and govern in a transparent manner. The failure of institutions in the TBA is evidenced by the pervasiveness of money laundering and its role in facilitating other activities by criminals. Transparency International's *Global Corruption Report 2004* highlights political corruption in the three countries and cites its role in fueling money laundering activity in the TBA. According to the report, Brazilian federal authorities discovered in 2003 that the Paraná state-owned bank Banestado had been involved in a "tax evasion and money laundering scheme amounting to US\$30 billion between 1996 and 1999."⁷³ The report notes that "the money was transferred from a Banestado branch in Foz do Iguaçu" to "130 accounts in the bank's New York branch through a special form of account reserved for non-residents."⁷⁴ The names of "several politicians and well-known businessmen were included in the list of beneficiaries."⁷⁵ Consequently, the Brazilian senate rejected a formal investigation, although the "lower congress agreed to establish a parliamentary commission of inquiry" in June 2003.⁷⁶

Pervasive corruption and overall weak institutions in the Paraguayan government have compounded the ease with which criminals operate in Foz do Iguaçu. Paraguay is the poorest of the three countries in the TBA and the lack of political and economic stability has led to a culture of corruption. Since the military dictatorship of Alfredo Stroessner, who ruled Paraguay from

⁷³ Transparency International, *Global Corruption Report 2004* (Sterling: Pluto Press, 2004), 164.

⁷⁴ Ibid.

⁷⁵ Ibid.

⁷⁶ Ibid.

1954 to 1989, political corruption has been systemic in the country. In 2002, Transparency International listed Paraguay as the most corrupt country in Latin America and the third most corrupt country worldwide.⁷⁷ To corroborate its assertions, Transparency International noted that “half the country’s retailers do not pay value added tax on the goods they sell and government only collects 35 percent of the taxes it is owed.”⁷⁸ In addition, Paraguay’s worst corruption is said to occur in the areas of “customs, public contracts, and the judiciary.”⁷⁹ The mix of corruption in customs, the judiciary, and the tax code has made Ciudad del Este an attractive location for criminals. Without a more concerted effort by the Paraguayan government to become more transparent and reign in the informal economy, corruption will continue to thrive in the region and continue to be a detriment to the country’s development.

Although the Argentine side of the TBA is considered to be less of a contributor to crime in the TBA, the 2001 financial crisis destabilized the Argentine government and institutions and created havoc in the political system. The slow recovery of the country since the crash has contributed to its inability to govern with the full confidence of its citizens. The recent case of Franklin Duran and his attempt to smuggle US\$800,000 into Argentina highlights the pervasiveness of corruption in Argentina.⁸⁰ Duran allegedly received the cash from Venezuelan President Hugo Chávez and was attempting to smuggle the money into Argentina so that it could bolster Argentine President Christina Fernández de Kirchner’s campaign.⁸¹ Since the case involved un-registered Venezuelan agents in Miami attempting to persuade Duran to cover-up

⁷⁷ Andrew Downie, “In Paraguay, corruption still king,” *The Christian Science Monitor*, September 18, 2002, <http://www.csmonitor.com/2002/0918/p08s01-woam.html>.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Alexei Barrionuevo and Carmen Gentile, “Conviction in Spy Case Over Cash-Filled Suitcase,” *The New York Times*, November 3, 2008, http://www.nytimes.com/2008/11/04/world/americas/04suitcase.html?_r=1.

⁸¹ Ibid.

his smuggling effort, tensions between Argentina and the U.S. have soured, which could threaten law enforcement and intelligence cooperation in the TBA.⁸²

The topic of institutional weakness and corruption in Latin American governments has often received cool reception amongst its leaders mainly due to leaders' suspicions that the U.S. government has covertly supported instability in the region for decades, ultimately impeding development in countries such as Brazil, Argentina, and Paraguay. In recent years, populist Latin American leaders such as Hugo Chávez, Evo Morales, and Rafael Correa have assailed dependency theory and U.S. intervention in the region. But considering the financial crisis that the world faces today, cooperation amongst U.S. and Latin American leaders will be crucial to the region's development over the next few decades. In a recent article in *Foreign Policy* magazine, Moisés Naím asserts that "the global economic crisis will only intensify" the transfer of power from governments to criminals in countries where narcotraffickers and criminals are the "major source of job, economic opportunity, and money for elections."⁸³ In regions such as the TBA, where porous borders and ineffective institutions exist, cross-border cooperation will be crucial to ensuring that criminals do not obtain more power. The governments of Argentina, Brazil, and Paraguay, along with the U.S., need to reexamine policies in the region and determine the best way forward in terms of governance in the TBA.

VIII. The Way Forward

The plethora of problems facing the TBA means that there is no simple solution to deterring criminal activity in the region. However, there are steps that the regional governments can take to ensure that transnational crime in the region does not proliferate to increasingly

⁸² Ibid.

⁸³ Moisés Naím, "Wasted," *Foreign Policy*, May/June 2009, http://www.foreignpolicy.com/story/cms.php?story_id=4861.

dangerous levels. In order to do so, the primary goal of the governments of Argentina, Brazil, and Paraguay should be to make the TBA a much more difficult region for criminals to conduct their illicit activities. Currently, weak border control, corrupt governance, and a large informal economy make the TBA an ideal home for criminals.

A. Porous Borders

As previously mentioned, much of the illicit activity in the TBA is conducted using the Friendship International Bridge that connects Ciudad del Este to Foz do Iguaçu. Due to corrupt and ineffective customs officials and lax trade laws under Mercosur, the bridge serves as an avenue for the smuggling and trafficking of drugs and counterfeit goods. Although members of Mercosur consider the trade bloc to be crucial to the flow of goods and services in the Southern Cone, free trade should not come at the expense of security. With a growing middle class in Brazil that will likely boost demand for counterfeit electronics and illicit narcotics in the future, tougher customs patrol and enforcement on the Friendship International Bridge and the Tancredo Neves International Bridge, which links Foz do Iguaçu and Puerto Iguazú, are needed to deter illicit smuggling.⁸⁴ Continuing U.S. government assistance in improving and overseeing customs patrol in the TBA is crucial to ensuring that progress is made. In 2004, the U.S., Paraguayan, Brazilian, and Argentine governments met at the U.S. Department of State (DOS) in Washington, D.C. to discuss TBA security. At the conference of the “3 + 1 Group on Tri-Border Security,” the Paraguayan, Brazilian, and Argentine delegations expressed interest in greater integration of customs and immigration controls in the region, along with more communication regarding cargo flights that operate between their borders.⁸⁵ Building on that interest would be a

⁸⁴ Central Intelligence Agency, *International Crime Threat Assessment* (Washington, DC: December 2000), 108.

⁸⁵ U.S. Department of State, *Communique of the 3 + 1 Group on Tri-Border Area Security* (Washington, DC: December 6, 2004), <http://www.state.gov/s/ct/rls/other/39706.htm>.

positive step which could lead to stronger enforcement of the borders and ensure that there is greater accountability between countries when it comes to corruption by customs officials.

B. Corruption

Ineffective governance and a lack of the rule of law in the TBA have enabled illicit activity to proliferate over the past few decades. Hudson points out that Paraguayans in and around Ciudad del Este have very little confidence in the local police force due to its reputation for corruption.⁸⁶ Their lack of confidence is exhibited by the fact that “the city’s 6,000 shops, 36 banks, and 15 money exchanges” all have “hired private guards.”⁸⁷ Although Paraguayan forces are considered the weakest link when compared to Brazilian and Argentine law enforcement agencies, all three need to exhibit greater cooperation and will continue to require outside aid in developing their judicial and law enforcement systems. In order to strengthen the rule of the law in the TBA, agencies such as the U.S. Department of Justice (DOJ) need to continue to maintain a presence and training mission in the region. Currently the DOJ Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT) has Resident Legal Advisers (RLAs) situated in the TBA to assist “Paraguayan legislators to review and reform the penal code and criminal procedure codes” as well as assist Brazilian, Argentine, and Paraguayan law enforcement agencies in building their capacity to fight money laundering and terrorist financing.”⁸⁸ Such assistance is important to improving governance and law enforcement in the region and needs to continue. Considering the increasing volume of narcotics trafficked through Brazil to West Africa, and eventually to Europe, European countries and the European Union (EU) should also look to provide governance and judicial assistance in the TBA, rather than

⁸⁶ Hudson, *Terrorists and Organized Crime Groups*, 66.

⁸⁷ Ibid.

⁸⁸ U.S. Department of Justice, *DOJ/OPDAT Latin America and Caribbean Programs* (Washington, DC: 2009), http://www.usdoj.gov/criminal/opdat/lat-america/lat_am_caribbean_prg.html.

solely focusing on trade and investment issues in the region.⁸⁹ Continued U.S. military assistance in the region should continue, but should be of less focus than governance and law enforcement assistance, considering the weariness that local residents might exhibit with a visible U.S. military presence in the region.⁹⁰

C. Informal Economy

One of the biggest obstacles to development in Paraguay, Brazil, and Argentina is the presence of a large informal economy in all three countries. The informal economy, particularly large in Paraguay, makes hiding illicit activity in the TBA easy for transnational criminals because they are able to continue the production and selling of counterfeit and smuggled goods without legal ramifications. The governments of all three countries need to do more to reign in the informal economy and ensure that there is a stronger governing presence in the region regarding taxes, business registration, and compliance enforcement. To deter illicit smuggling and counterfeit activity, the governments need to ensure that tariff protections and tax rates between the countries are at relatively equal levels in order to decrease the incentive of criminals to smuggle. According to a 2007 article in *The Miami Herald*, the incentive to smuggle in the region is high because “protectionist Brazil charges some of the highest taxes in the world – as much as 80% on some goods – and Paraguay among the lowest, at about 4 percent.”⁹¹ Foreign governments also need to continue to enforce targeted financial sanctions against egregious violators and money launderers in the illicit economy, such as the Treasury Department’s sanctions against the Barakat network, in order to deter illicit behavior and provide more

⁸⁹ European Commission Delegation to Paraguay, *Our Mission*, (Asunción, 2009), <http://www.delpy.ec.europa.eu/contenidos/index.php?Id=99>.

⁹⁰ Pedro Servin, “Paraguay Hardens U.S. Military Stance,” *The Washington Post*, October 3, 2006, <http://www.washingtonpost.com/wp-dyn/content/article/2006/10/03/AR2006100301627.html>.

⁹¹ *The Miami Herald*, “Smugglers from Paraguay Flock to Brazil,” September 1, 2007, http://www.flasco.org/hemisferio/al-eeuu/boletines/02/85/rel_06.pdf.

accountability in local banks. Unless the banking system in the TBA does not curb the illicit flow of money, terrorist financing and money laundering will continue to have negative global ramifications.

IX. Conclusion

The TBA's lawlessness is not only a threat to the development of Paraguay, Brazil, and Argentina, but it also is a threat to global stability. Since transnational criminals have only greatly proliferated over the last couple of decades, their presence and effects on global stability are just beginning to be recognized by some scholars and public officials worldwide. With its porous borders, weak government institutions, and rampant corruption, the TBA has become a haven for transnational criminals and has also been used as a region in which criminals and terrorist networks interact and work together. In addition to the many policy improvements that need to occur in the TBA to control criminal activity, there needs to be a greater awareness of the danger that such lawless regions pose to the world. With the continued manifestation of globalization, transnational criminals will continue to innovate and develop new methods to subvert the law. In order to control their efforts, global cooperation will often need to trump issues of sovereignty. In the days leading up to the start of the 2009 Summit of the Americas, Brazilian President Luiz Inácio Lula da Silva said in reference to Latin America that "we're a democratic, peaceful continent, and the United States has to look at the region in a productive, developmental way, and not just think about drug trafficking and organized crime."⁹² President Lula da Silva is correct in his assertion that Latin American countries are often characterized in overly bleak ways. But unless Latin America and the global community do more to combat drug

⁹² Alexei Barrionuevo, "At Americas Summit, Leaders to Press U.S.," *The New York Times*, April 17, 2009, <http://www.nytimes.com/2009/04/17/world/americas/17trinidad.html>.

trafficking and organized crime, the prospect of improved democracy and peace in Latin America may become much dimmer.

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