



Internationalizing the Fight Against Hubs of Illicit Trade & Criminalized Markets

HUBS OF ILLICIT TRADE (HIT) PROJECT

White Paper - TRACCC

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Acknowledgments

This White Paper is a collective work prepared by researchers of *the Hubs of Illicit Trade* project noted below, under the guidance of Dr. Louise I. Shelley, Director of Terrorism, Transnational Crime and Corruption Center (TraCCC) at George Mason University; David M. Luna, Co-Director of the Anti-Illicit Trade Institute (AITI) at George Mason University; and Judy Deane, Deputy Director of TraCCC. The White Paper synthesizes major findings and insights from the final report and the four regional reports on hubs of illicit trade prepared by international research teams:

- > Krylova, Y. (2023). *Smugglers' Paradises in the Global Economy: Growing Threats of Illicit Trade Hubs to Security and Sustainable Development*. TraCCC.
- > Singh, R., & Lasmar, J. (2023). *The Tri-Border Area: A Hub of Illicit Trade with a Global Impact*. TraCCC.
- > Krylova, Y., & Rico, D. (2023). *Regional Hubs for Illicit Trade in Central America: Panama, Belize, and Guatemala*. TraCCC.
- > Krylova, Y. (2023). *Dubai: A Global Hub for Illicit Trade and Sanctions Evasion*. TraCCC.
- > Shostko, O. et al. (2023). *Ukraine's Illicit Trade Report*. TraCCC.

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Executive overview

Due to its low-risk, high-reward nature, more and more criminals, threat networks, corrupt facilitators and enablers, and money launderers are gravitating to hubs of illicit trade and illicit markets to generate greater profits. Through diversion, counterfeiting, trafficking, or smuggling, these bad actors are financing greater violence, insecurity, and instability from the criminally-derived proceeds of illicit trade. They are undermining the rule of law and democratic institutions. These hubs no longer function solely as the source of the flows, they are simultaneously the locale where illicit flows originate, transit, or end, making the entire equation increasingly complex and globally interconnected.

In such hubs of illicit trade and criminalized markets, governments lose revenue through diversion, fraudulent business practices, criminal evasion of border controls, corruption of customs and law enforcement officials, and cross-border smuggling and trafficking operations. Such practices also finance other destabilizing security threats, fuel impunity, contribute to environmental degradation, enflame violent conflicts, and undermine the effectiveness of public health policies and other anti-crime and national security policies.

In February 2021, the Terrorism, Transnational Crime and Corruption Center (TraCCC) and its Anti-Illicit Trade Institute (AITI) embarked on a two-year research project to examine “Hubs of Illicit Trade” around the world.¹ Academic literature and studies have shown hubs of illicit trade and illicit economies facilitate the production, illegal trade, and trafficking of counterfeit and contraband goods.² In particular, recent studies have also shown that a significant proportion of the trafficking in illicit goods and contraband can be traced to a small number of supply routes and hubs which are safe havens that specialize in illegal manufacturing, diversion, and/or cross-border smuggling while also serving as centers for money laundering, especially trade-based money laundering (TBML), and other crimes.³

This white paper entitled “**Internationalizing the Fight against Hubs of Illicit Trade (HITs) and Criminalized Markets**” serves as a policy brief to provide a series of recommendations, based on the detailed evidence-based research undertaken throughout the “Hubs of Illicit Trade” project. The research evaluated the threats associated with these hubs, their impacts and common themes, which are covered in detail in the final report⁴ based on a comprehensive and detailed analysis of the regional hubs of illicit trade in Panama, Belize, and Guatemala in Central America, the Tri-Border Area encompassing Argentina, Brazil and Paraguay in South America, Dubai in the UAE, and Ukraine in Eastern Europe.

The White Paper has been written for policy-makers, with a view to assisting them in how they fight the increasing threats posed by these hubs whose impact is amplified by crime convergence, as criminals exploit the same trade routes, transportation modes, corruption nodes, and opportunistic networks to move illicit goods and other contraband.⁵ For example, trafficking in counterfeits converges with other criminal activities across borders, including with the drug trade, weapons trade, wildlife smuggling, pillaged natural resources, forced labor and human trafficking, and other crimes that create a staggering amount of wealth for criminal entrepreneurs.

Specifically, the project’s preliminary findings are listed below:

KEY FINDINGS: HUBS OF ILLICIT TRADE	
Crime Convergence and poly-criminality	<ul style="list-style-type: none"> > Same routes, criminal organisations and transportation used for different illicit trades > Similar operators in each hub showing global reach
Use of legitimate legal companies to further means of illicit traders	<ul style="list-style-type: none"> > Legally registered international and national companies, including raw materials suppliers, manufacturers, distributors, logistics operators and financial and accounting services > Enablers in financial safe havens, including bankers, lawyers, accountants, art dealers, investment advisors, real estate agents, trust or company providers, gold and diamond traders, and other service-based firms and professionals who are complicit in abetting criminals, kleptocrats, and terrorist financiers to launder money to commit their fraud, corrupt practices, and financial crimes⁶
Sanctions evasion	<ul style="list-style-type: none"> > Utilising complex distribution and accounting arrangements to help corrupt states evade sanctions > Illicit trafficking with the aid of front companies registered in offshore safe havens, with Iran, North Korea, and Venezuela being illustrative modalities on how Panama, Dubai, and other hubs of illicit trade evade sanctions, move illicit goods and contraband bi-directionally, and support modern dictatorships
Free Trade Zones as enablers of illicit production and transshipments	<ul style="list-style-type: none"> > Weak regulations providing illicit traders with cover as there is no transparency associated with their activities, technology to enforce or detect illegal merchandise or background checks for compliance > Presence of legitimate companies in FTZs supporting illicit traders and criminal organisations
High levels of corruption and violence	<ul style="list-style-type: none"> > Political corruption through bribes across multiple levels of seniority providing immunity from prosecution and access to key figures in government > Violence committed by drug traffickers, gangs, and corrupt police and security officials, particularly in Central America and Brazil characterized by some of the highest homicide rates in the world⁷
Financial secrecy and lax anti-money laundering regimes as enablers of illicit trade	<ul style="list-style-type: none"> > Deficiencies in financial regulations, enabling trade-based money laundering and money laundering through gold and real estate,⁸ and crypto-currency vulnerabilities due to lax regulations. > Utilizing illegal currency transfers to support the illicit circulation of goods and money, for example, in Dubai⁹
Vulnerable communities exploited	<ul style="list-style-type: none"> > Exploitation of poorer segments of society, including the poor, refugees, displaced persons, and economic migrants > Exploitation of geopolitically unstable countries

Source: Smugglers' Paradises in the Global Economy: Growing Threats of Illicit Trade Hubs to Security and Sustainable Development (2023). TraCCC.

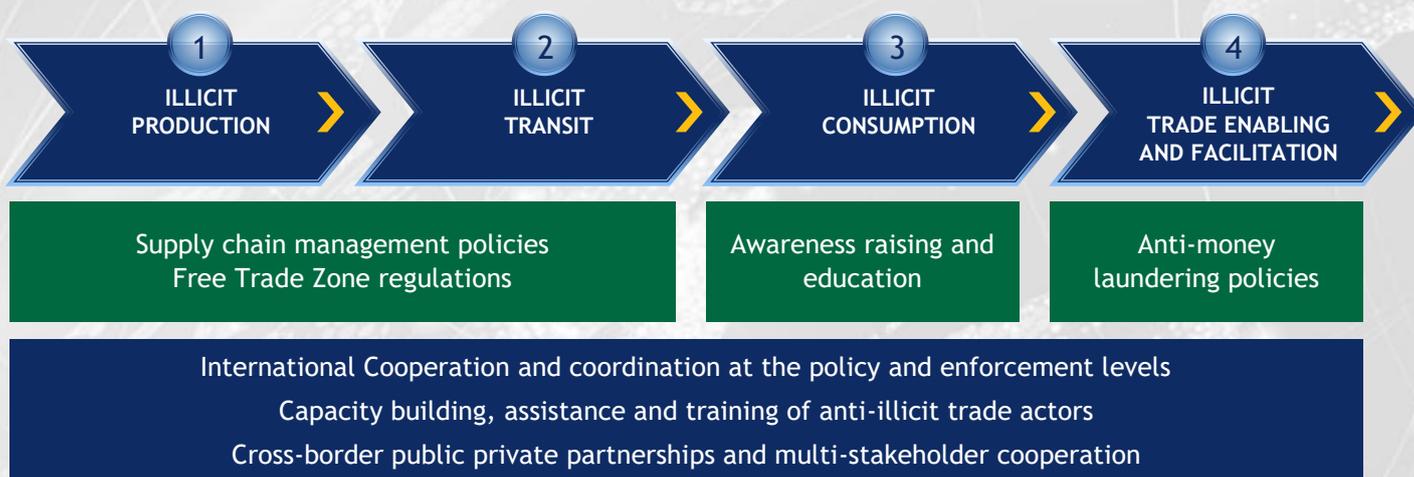
There are a range of policy options to disrupt these hubs, which if implemented effectively, could significantly move the dial towards winning the battle against illicit trade. These can be summarized as follows:

KEY POLICY APPROACHES TO FIGHT HUBS OF ILLICIT TRADE

- > **Utilize international cooperation through diplomatic channels, dedicated treaties and regional agreements:** Most hubs have been able to continue to operate without significant international pressure to change, despite the commercial incentives that may come with additional cooperation or the ratification of treaties. The majority of hubs have not ratified either the Protocol to Eliminate Illicit Trade in Tobacco Products, obtained FATF membership or signed the anti-counterfeiting trade agreement.
- > **Enhance and improve supply chain management policies, targeting both illicit traders and legitimate companies that help to facilitate illicit trade:** The majority of activities within hubs of illicit trade are undertaken by legitimate companies. However, they operate in these hubs to facilitate illicit traders, by supplying raw materials or providing services such as banking or logistics.
- > **Greater capacity building, training and whole of government approaches:** Each hub has high levels of corruption, as defined by Transparency International’s Corruption Perception Index¹⁰. Corruption can be combatted with better law enforcement and greater government commitments. Improve capacity of local law enforcement to use intelligence driven management and target high value targets.
- > **Introduce anti-money laundering regulations based on FATF recommendations:** Both Panama and the UAE are on the FATF grey list, indicating an environment in which it is easy for criminals to launder the proceeds of their crimes.
- > **Adopt and enforce transparent and accountable practices for Free Trade Zones as recommended by the WCO, the WTO and the OECD:** Jebel Ali in Dubai and Colon in Panama are some of the largest Free Trade Zones in the world. The lack of transparency and weak regulatory environments enable criminals to manufacture and transit goods in a way that allows them to evade detection of their illicit activities.
- > **Implement cross-border public-private partnerships and multi-stakeholder cooperation:** Working through international organizations, such as the OECD to pressure Hubs of Illicit Trade, through international financing and trade agreements.
- > **Work with civil society to increase public awareness on challenges created by HITs:** This includes mapping “negative consequence flows” from HITs. Consumers are unaware of the global impact of HITs, including the enhanced corruption and financing of terrorism.
- > **Develop a long-term strategy aimed at addressing some of the root causes of illicit trade participation by vulnerable communities.** This should include promotion of legal trade, education, and targeted programs to help develop alternative livelihoods. Support investigative journalists and civil society groups working to bring greater light on corruption and criminality across hubs of illicit trade.

Different functions associated with the Hubs of illicit trade need different policy recommendations, as shown in Figure 1.

Figure: 1. Cornerstone policy domains addressing key functions of Hubs of Illicit Trade



Source: *Smugglers' Paradises in the Global Economy: Growing Threats of Illicit Trade Hubs to Security and Sustainable Development (2023)*. TraCCC.

This White Paper will outline not only some of the threat challenges emerging across hubs of illicit trade, but underscore the critical need to leverage legal instruments and cooperative frameworks that can result in better policy responses and more effective cross-border judicial action to counter illegal trade. Furthermore, based on the TraCCC’s current evidence-based research, identifying hubs of illicit trade can help strengthen cross-border cooperation as outlined in numerous international conventions and frameworks including the UN Conventions against Transnational Organized Crime (UNTOC)¹¹ and Corruption (UNCAC)¹², the OECD Recommendation on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones¹³, Financial Action Task Force (FATF) Recommendations on Money Laundering and Terrorist Financing¹⁴, and the Framework Convention on Tobacco Control (FCTC) and the Protocol to Eliminate Illicit Trade in Tobacco Products.

1) What are Hubs of Illicit Trade

Illicit trade is a global challenge and threat multiplier that impacts every region of the world. The lucrative criminal activities across hubs of illicit trade fuel the multi-trillion dollar global illegal economy including the smuggling and trafficking of narcotics, opioids, weapons, humans, counterfeit and pirated goods; illegal tobacco and alcohol products; illegally harvested timber, wildlife and fish; pillaged oil, diamonds, gold, natural resources such as sand and precious minerals; and other contraband commodities. A significant proportion of the trafficking in illicit goods and contraband can be traced to a small number of safe haven hubs that specialize in illegal manufacturing, diversion, and/or cross-border smuggling while also serving as logistics hubs and money laundering centers.

Depending on their specialization, hubs participate in production, transshipments, and consumption of various illicit goods and services. They can also perform enabling and supporting functions by providing offshore financial and money laundering services for smuggling networks located within these hubs and in other parts of the world.¹⁵

Among these enablers in financial safe havens are bankers, lawyers, accountants, art dealers, investment advisors, real estate agents, trust or company providers, gold and diamond traders, and other service-based firms and professionals who are complicit in abetting criminals, kleptocrats, and terrorist financiers to launder money to commit their fraud, corrupt practices, and financial crimes.¹⁶

The disruption of hubs of illicit trade, therefore, requires a holistic strategy based on a set of policies that simultaneously address all their major functions, including production, transit, and consumption of illicit goods and services, as well as their enabling and facilitating functions, as shown in Figure 2.

Figure 2: Key functions of Hubs of Illicit Trade



Source: HIT Project Authors

The HIT project examined **four hubs** across a range of illicit trade sectors including illicit hubs in Panama, Belize, and Guatemala in Central America, the Argentina-Brazil-Paraguay Tri-border Area in South America, Dubai the UAE, and in Ukraine and neighboring Eastern European markets.

These four hubs of illicit trade were initially selected for their geographic diversity and recognition as areas for a high concentration of illicit flows of commodities and services and with a strong presence of criminal actors and a wide range of enablers, often from the legitimate economy, that provide supportive activities for illicit transactions, inter-connections with other hubs and illicit markets, and near major challenging free trade zones. Their key features are presented in Figure 3.

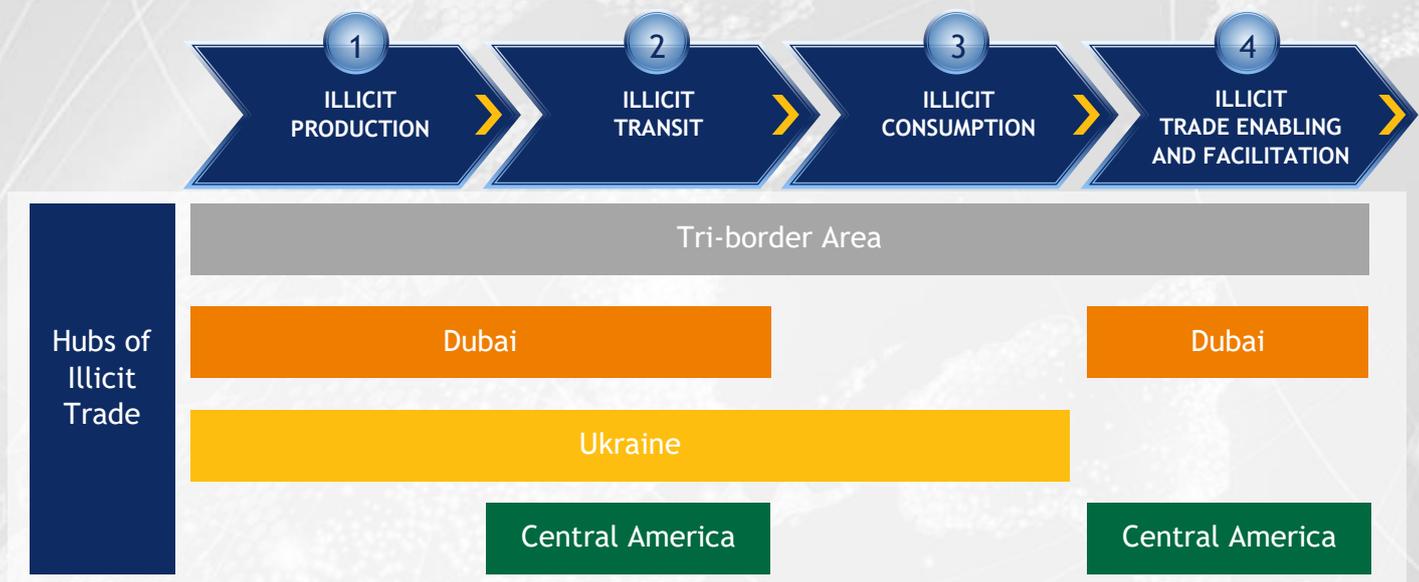
Figure 3: Location and key features of Hubs of Illicit Trade



Source: Authors

As defined in the summary, each of the hubs has multiple functions and key characteristics. The Tri-border region is both a manufacturing, distribution, consumption and money laundering center, whilst Dubai serves as a manufacturing and distribution center, but with limited consumption. Therefore, organizations operating in Dubai stand to make significant profits, without impacting the wider population. The economic incentives are likely to make it hard for the country to implement the changes required. Ukraine's production and transit role, fuelled by a local market consuming the products has changed significantly over the past year, but many of the policy recommendations are the same. Finally, Central America has limited production, but serves as a major transit point, meaning that fewer in the country benefit from illicit trade, other than those in power, susceptible to corruption (Figure 4).

Figure 4: Functions of each Hub of Illicit Trade



Source: Authors

Each hub of illicit trade studied has common features, in terms of the level of crime convergence and variety of sectors. Whilst there were different factors associated with each HIT that made them such ‘safe havens’ for criminals. These hubs host a range of crimes, including trafficking in humans, natural resources, COVID-related fake pharmaceuticals and personal protective equipment (PPE), consumer counterfeits, firearms, narcotics, tobacco and other contraband.

They also provide a favorable environment for illicit trade facilitated by corruption, money laundering/TBML, and enablers who play a critical role in supporting such criminal activities and moving both illicit goods and dirty money across borders from one market, free trade zone, or hub to another. Recently, in a case involving illegal tobacco trade, the United States Department of Justice illuminated the crime convergence and cross-border illicit trafficking operations including the abuse of third-party companies and anonymous shell companies that were engaged in illicit cigarettes trade to evade U.S. and international sanctions.¹⁷

Table 1: Estimated values of global illicit trades

Estimated Global Illegal Trade, Corruption, and Illicit Markets			
Crimes	Estimated Global Value (\$)	Hubs identified	Specific hub insights
Money Laundering	At least \$2.6 trillion (2-5% of global GDP)	Dubai Central America Tri-Border Area (TBA) in South America	<ul style="list-style-type: none"> > UAE’s position on the FATF ‘grey list’, enabling money laundering on international scale through gold / real estate > Cash generated through Central American wholesale businesses, as illustrated by the Panama Papers > Money laundered in the TBA uses mainly Brazil as a springboard to move these assets into the global markets, making Brazil a key point in placement and layering processes.
Transnational Crime	\$1.6 trillion to \$2.2 trillion	All hubs	<ul style="list-style-type: none"> > TBA serves as a hub of goods imported from around the world, and allows diverse international criminal and terrorist organisations to function (e.g., triads, Hezbollah) > Utilisation of peso exchange system in Central America to launder proceeds of drug trafficking and purchasing contraband
Narcotics Trafficking	\$750 billion to \$1 trillion	Central America, TBA, Ukraine	<ul style="list-style-type: none"> > Historically Ukraine was on the opium routes to Europe - in 2021 over a ton of heroin seized destined for the EU > Ciudad del Este at the heart of the TBA, known as a major smuggling hot-spot in illicit trade
Counterfeited and Pirated Products	\$500 billion to \$1 trillion	Central America, TBA, Dubai	<ul style="list-style-type: none"> > Pharmaceutical counterfeiting worth \$200 billion a year, with 10% of products in developing countries, substandard or falsified (WHO) > Luxury brands projected to reach over \$1 trillion in value in 2022¹⁸ > Half brands (47%) lose sales to counterfeit goods¹⁹ > 1 out of 4 bottles of alcohol is illicit²⁰
Environmental Crime	\$91 billion to \$258 billion	Dubai	<ul style="list-style-type: none"> > Dubai sits as global centre of environmental crime, especially wildlife and natural resources > Illicit trade in sand leads to coastal devastation
Human Trafficking	Up to \$150 billion	TBA, Central America, Ukraine	<ul style="list-style-type: none"> > The U.S. Department of State places Belize, Brazil, Guatemala, Panama, Paraguay, Ukraine, and the UAE among Tier 2 countries, meaning that their governments do not fully meet the trafficking victims’ protection minimum standards > Russia’s invasion and war-induced migration makes Ukrainian particularly vulnerable to human trafficking networks > MS-13 and Barrio 18, criminal gangs traditionally involved in extortion and drug trade in the United States and Central America who increasingly turn to sex trafficking due to its profitability and lower risks compared to narcotics.
Illicit Tobacco	\$40 billion to \$50 billion ²¹	All	<ul style="list-style-type: none"> > UAE and Paraguay major manufacturing hubs for illicit cigarettes, with 65% of India’s vast amount of illicit trade coming from Dubai²² > Panama Colon FTZ provides transit hub for most illicit cigarettes consumed in Central America
Illegal Mining	\$12 billion to \$48 billion	Dubai, TBA	<ul style="list-style-type: none"> > Gold, much of it sourced from conflict areas, is frequently traded to UAE where it can be converted into funds > 80% of gold in conflict-affected areas is illegal, often leading to environmental devastation

Source: Authors compiled based on different sources

As illustrated by numerous inter-governmental organizations including the Organization for Economic Cooperation and Development (OECD), United Nations Office on Drugs and Crime (UNODC), European Union (EU), World Economic Forum (WEF), and others, the multi-dimensions of the global illegal economy across various illicit activities constitute a staggering several trillion dollars every year. The HIT project demonstrated how hubs of illicit trade are exploited by transnational criminal organizations (TCOs) and other threat networks for immense illicit wealth and as a means to expand illicit ventures globally. The project also provided an analytical basis for advancing advocacy and cross-sectoral policy disruptive strategies aimed at illicit trafficking pathways in and through these hubs of illicit trade.

2) What are the policy recommendations to counter Hubs of Illicit Trade?

Illicit trade is a global challenge and threat multiplier that impacts every region of the world. Recent evidence-based research shows that illicit trade is booming globally, and across the digital world, fueling transnational crime and corruption. It is corroding the rule of law and creating further insecurity and instability in too many places around the world. It is enabling violent trafficking organizations to expand their operations, terrorist groups to finance their attacks against our communities, and rogue regimes to underwrite their nuclear programs.

Given the variety of illicit goods and services traded within the Hubs of Illicit Trade studied, their growing production facilities, and local demand for illicit goods and services, their disruption requires a holistic strategy.

This strategy should be based on a set of policies that simultaneously addresses major functions performed by hubs, including illicit production, transit, consumption, and their enabling and facilitating functions such as money laundering. In turn, the holistic strategy requires coordinated efforts among various government entities (a whole-of-government approach) and their cooperation with other stakeholders, including private-sector entities, academia, civil society organizations, and consumers (a whole-of society approach).²³

Table 2 summarizes key policies targeting various functions of hubs of illicit trade:

Table 2. Major policies addressing KEY functions of hubs of illicit trade

POLICY DOMAINS	EXAMPLES OF POLICIES
International cooperation and coordination at the policymaking and enforcement levels	<ul style="list-style-type: none"> > Ratification of international conventions and treaties regulating specific types of illicit trade. > Strengthening bilateral and multilateral diplomatic channels. > Providing access to international funding conditional on anti-illicit trade policy reforms. > Trade facilitation & harmonized policies related to taxation, penalties, customs procedures, free trade zone regulations, etc. > Enhancing law enforcement cooperation, data sharing, and the integration of hubs-related analytics into early-warning systems.
Supply chain management policies	<ul style="list-style-type: none"> > Adopting policies to increase accountability and transparency in provenance jurisdictions of counterfeits. > Complying with track and tracing, labeling, and record-keeping requirements. > Adopting due diligence and know-your-customer practices along the supply chain to ensure that key inputs in illicit manufacturing are also controlled. > Outlining legal responsibilities and imposing stricter penalties on legitimate companies and actors who enable and facilitate operations of illicit manufacturers and distributors. > Complying with licensing requirements.
Capacity building, assistance, and training	<ul style="list-style-type: none"> > Establishing Joint Anti-Illicit Trade Task Forces. > Strengthening local anti-corruption capacity. > Launching new capacity building, assistance and training initiatives at ports and other critical entry points for illicit trade.
Anti-money laundering policies	<ul style="list-style-type: none"> > Adopting beneficial ownership & anti-money laundering regulations based on international recommendations set by the Financial Action Task Force (FATF). > Coordination with regional bodies, e.g., the Financial Action Task Force of Latin America (GAFILAT), the Middle East and North Africa Financial Action Task Force (MENAFATF), the Eurasian Group (EAG).
Free trade zone regulations	<ul style="list-style-type: none"> > Adopting and enforcing policies ensuring transparent and accountable practices for free trade zones, drawing on recommendations developed by international and regional organizations, e.g., the World Trade Organization (WTO), the World Customs Organization (WCO), and the Organization for Economic Co-operation and Development (OECD).
Cross-border public-private partnerships & multi-stakeholder cooperation	<ul style="list-style-type: none"> > Enhanced cross-border public-private partnerships aimed at curbing illicit trade. > Multi-stakeholder initiatives putting pressure on hubs of illicit trade at the country, regional, and global levels.
Awareness-raising & education	<ul style="list-style-type: none"> > Awareness-raising campaigns on multiple harms and threats of hubs of illicit trade to sustainable development and global security. > Education on individual and organizational contributions to disrupting illicit trade hubs. > Investigative journalism that informs a broader public of the harmful products being shipped through hubs of illicit trade

Source: Authors compiled based on different sources.

A. International cooperation and coordination at the policymaking and enforcement levels

In addition to countries optimally using their national laws to combat crime convergence including an array of trafficking crimes, countries must also leverage numerous international legal frameworks, treaties, and agreements to overcome governance gaps and combat illicit goods across hubs of illicit trade. The effective implementation of international frameworks and conventions can make a difference in tackling hubs of illicit trade, corruption, money laundering, and other security threats; promoting cross-border cooperation, mutual legal assistance, and the sharing of information.

The project clearly showed strong linkages across hubs of illicit trade between corrupt officials and criminal actors. This is why it is critical to optimize international cooperation through international treaties and the membership of international organizations which mandate countries to adopt regulatory frameworks which will disrupt Hubs of Illicit Trade.

Table 3 lists some of the major treaties and current membership from hub countries.

Table 3: Countries’ ratification of international treaties relevant to illicit trade and full membership in FATF

CONVENTION, TREATY, OR FULL MEMBERSHIP	ARGENTINA	BELIZE	BRAZIL	GUATEMALA	PANAMA	PARAGUAY	UAE	UKRAINE
UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988	✓	✓	✓	✓	✓	✓	✓	✓
Arms Trade Treaty	✓	✓	✓	✓	✓	✓	✓	✓
Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)	✓	✓	✓	✓	✓	✓	✓	✓
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal	✓	✓	✓	✓	✓	✓	✓	✓
UNESCO 1970 Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property	✓	✓	✓	✓	✓	✓	✓	✓
Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)	✓	✓	✓	✓	✓	✓	✓	✓
Protocol to Eliminate Illicit Trade in Tobacco Products (ITP)	✗	✗	✓	✗	✓	✓	✗	✗
United Nations Convention against Transnational Organized Crime	✓	✓	✓	✓	✓	✓	✓	✓
UN Convention Against Corruption	✓	✓	✓	✓	✓	✓	✓	✓
Financial Action Task Force Full Membership	✓	✗	✓	✗	✗	✗	✗	✗

Sources: United Nations (n.d.); EFF (n.d.); FATF (n.d.); & WTO (n.d.).²⁴

The UN Convention against corruption (UNCAC) has numerous important provisions that can help to not only prevent corruption through the implementation of effective practices but also has measures that strengthen cross-border cooperation on cases concerning corruption, bribery, and money laundering of proceeds of corruption. The UN Convention against Transnational Organized Crime (UNTOC) helps to prevent and fight transnational organized crime. It requires that Parties to the convention take active measures to criminalize organized crime including offenses related to corruption, money laundering, trafficking in persons, firearms, and other crimes. It also promotes training and technical assistance to strengthen the law enforcement capacities of national authorities.

Both the UNCAC and UNTOC create broad legal frameworks to promote and facilitate technical assistance, extradition, the exchange of information, and law enforcement cooperation among Parties to the Conventions. As all countries from the Hubs of Illicit Trade studied are members of these conventions, membership should be used as an opportunity to put these legal frameworks in place.

The WHO FCTC encourages the elimination of all forms of illicit trade in tobacco products including smuggling, illicit manufacturing and counterfeiting. The FCTC and the ITP helps to effectively fight illegal trade across source, transit, and demand markets of illicit tobacco products and other illicit goods.²⁵ The Protocol also addresses measures on supply chain control including on licenses, customer due diligence, record keeping, and other security measures. It mandates the establishment of a track and trace system and the use of controlled deliveries and other specialized investigative techniques to help law enforcement fight illicit trade. Finally, it also includes obligations to strengthen information sharing, technical and law enforcement cooperation, mutual legal assistance, and extradition. To help fight illicit trade, all countries should ratify the ITP and apply its learnings to other sectors.

B. Supply chain management policies

Private sector companies use a wide variety of supply chain management solutions to tackle the diversion of goods from legitimate supply chains, including track and trace systems, due diligence and know-your-customer policies, licensing, record-keeping requirements, and the use of new technologies for ensuring supply chain transparency.

Track and trace systems are used in many sectors, including aviation, retailing, and the pharmaceutical and tobacco industries. Innovative technologies can help brand owners to ensure supply chain integrity. Amazon Project Zero, for example, uses cutting-edge artificial intelligence technology and brand insights to detect and automatically remove counterfeits on the Amazon marketplace. As of March 2023, over 20 thousand brands were involved in Project Zero, with over eight billion listings monitored on a daily basis.²⁶ Blockchain technologies also play a critical role in providing supply chain transparency, reliability, traceability, and efficiency through data collection and record keeping.

As discussed elsewhere in the paper, it is important that the impact of supply chain management policies is not just to disrupt illicit traders, but also to prevent legitimate companies from participating in illicit supply chains. These legitimate companies, include banking, logistics and raw materials suppliers, often providing their goods from other parts of the world. In some cases, sanctions against the provision of services to known assets has proved effective, such as the recent US sanctioning of Cartes companies in Paraguay that underpinned huge swathes of TBA illicit activities.²⁷ This may require the imposition of penalties on companies that fail to undertake the necessary due diligence when supplying customers known to operate in these hubs of illicit trade.

C. Capacity building, assistance, and training

As previously stated, weak levels of law enforcement, often underpinned by corruption is a common feature of each Hub of Illicit Trade. A whole of society approach needs to be adopted given the challenges and limitations often associated with investigating and prosecuting criminal cases and the reality that the criminals use corruption to impede investigations, avoid prosecutions, and to launder their illicitly-acquired proceeds. Countries that have established taskforces dedicated to fighting illicit trade made up of multiple government departments and accountable stakeholders have experienced some success in fighting illicit trade.

Whilst many of the international treaties commit to greater assistance and capacity building, many of the hub countries do not have the resources to invest and therefore need support from the international community, both public and private sector as well as civil society and journalism. Financing from international institutions such as the IMF can play a significant role in supporting countries implement and enforce internationally recognized practices.

D. Anti-money laundering policies

As discussed, the ability of criminals to launder the proceeds of their crimes is a key characteristic of each Hub of Illicit Trade. The FATF Recommendations provide a useful framework for combating the predicates of money laundering in accordance with domestic law. The Recommendations outline ways to conduct cross-border financial investigations, identify and trace criminally-derived proceeds, assets, and instrumentalities, obtain evidence for prosecutions, and enable the seizure and confiscation of such proceeds and assets. In addition to requiring countries to develop effective legal, regulatory, and operational measures to counter money laundering, the FATF Recommendations also encourage governments to have national coordination and cooperation mechanisms in place such as Financial Intelligence Units (FIUs).²⁸

E. Free trade zone regulations

Some FTZs are notorious markets that bring together crime convergence and all sorts of illicit trade and an array of unsavoury bad actors. Criminals, corrupt facilitators, and complicit enablers exploit FTZs' vulnerabilities, including weak procedures to inspect goods and a lack of adequate cooperation between zone and customs authorities. FTZs such as the Tri-Border Area (TBA) in South America, Colón Free Zone (CFZ), Corozal Free Zone in Belize, and the Jebel Ali Free Zone (JAFZA) in Dubai, for example, serve as key manufacturing, trans-shipment and distribution hubs of illicit goods and contraband such counterfeits, fake medicines, cigarettes, trafficked persons, and illegal wildlife parts, with a high concentration of criminal logistics with illicit flows from numerous sources.

Free zone actors need to ensure transparent and accountable financial transactions and use advanced digital practices to identify fraudulent documents that are often used to expedite products through free trade zones. The OECD Task Force on Countering Illicit Trade (OECD TF-CIT) has focused on illicit trade across FTZs as a higher priority. In 2023, the OECD TF-CIT (now a Working Party) finalized a Certification Scheme as part of its "Recommendation on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones" and Code of Conduct.²⁹ FTZs associated with hubs of illicit trade may work with the OECD to benchmark their reforms to the OECD Recommendation and certify an increased commitment to transparency and fighting illegal trade and criminal activities.

F. Cross-border public-private partnerships & multi-stakeholder cooperation

Cross-border public-private partnerships (PPPs) are a force multiplier that can help to fight hubs of illicit trade. A good example of public-private partnerships includes the OECD TF-CIT (OECD Task Force to Counter Illicit Trade) which works to counter illicit trade works not only in FTZs, but also in addressing e-commerce challenges, illicit trade in fakes, and the misuse of containerized shipping and maritime transport channels for illicit trade. It sponsors evidence-based research on dangerous fakes and illicit goods, and illicit trade in vulnerable, high-risk sectors and global supply chains, and examines how corruption and money laundering fuels criminalized markets.

Another good example of international multi-stakeholder cooperation is a Container Security Initiative that was launched by the U.S. Bureau of Customs and Border Protection in 2002 to increase security for container cargo shipped to the United States. Its core elements are: (i) the use of intelligence and automated information to identify and target containers that pose a risk for terrorism; (ii) pre-screening those containers at the port of departure before they arrive to the United States; (iii) the use of detection technology to quickly pre-screen containers (e.g., large-scale X-ray and gamma-ray machines and radiation detection devices); and (iv) the use of smarter, tamper-evident containers.³⁰

As of 2022, the Container Security Initiative is operational at 61 ports, covering over 80% of all containerized cargo imported by sea into the United States, including the ports of Colon, Balboa, and Manzanillo in Panama and the Port of Cortes in Honduras.³¹ The importance of this initiative is explained by the fact that about 80% of global trade is transported in cargo containers, and this number is even higher in most developing countries.³² Similarly, the extension of the Container Security Initiative to other ports in Central America has potential for decreasing the intensity of criminal activities in seaports at the regional level. In this respect, the Guatemala Trade Security Initiative proposes the use of a special security regime to ensure that all high-risk containers in terms of illicit trade are identified and inspected at foreign ports before their arrival to Guatemala and their transshipment to the United States.

G. Awareness-raising & education

Awareness-raising and education initiatives help decrease demand for illicit goods and services and encourage individual consumers and organizations to report illicit activities to the appropriate authorities.

In turn, public authorities working on the prevention of illicit trade could benefit from inter-sectoral and inter-institutional cooperation and coordination in this arena. In Brazil, for example, in response to increasing illicit trade, the government set up the National Council on Combating Piracy and Intellectual Property Crimes comprised of public and private sector representatives responsible for coordinating national efforts against piracy and counterfeiting. Apart from law enforcement activities, the National Council on Combating Piracy and Intellectual Property Crimes aims to combat piracy in Brazil through educational and awareness-raising activities amongst consumers, focusing on the dangers of buying illicit goods and the direct links to organized crime and terrorism.³³

H. Leveraging Innovation and Technologies

Transnational criminal groups are very tech savvy. They have the capacity and resources to invest and have increasingly been using technology to their advantage. They use technology in a myriad of ways to improve their operations and even to engage in money laundering and cybercrime. Thus, new technologies and digital-based policy responses have significant potential for improving how illicit trade is addressed in the hubs.

Technological solutions have great potential to address illicit trade and even significantly reduce the costs associated with its fight. Technology is a great ally for monitoring the transport of illicit goods. The convergence of transportation methods for several illicit goods leaves indicators and signatures which technological tools can help detect and monitor. Technology can also significantly enhance and reduce the cost of customs monitoring. Thus, advanced screening technologies capable of detecting chemical camouflage are becoming more important, as it is increasingly difficult to detect this type of diversion through container imagery. Artificial intelligence-powered databases and software can analyze data on past shipments, routes, fraudulent documents, and types of goods being transported to identify high-risk cargoes. The efficiency of AI software can also be enhanced by implementing advanced cargo information programs in which importers and exporters file in advance cargo information and details, such as the type of goods, weight, and origin.

Digital technologies such as blockchain can be used to improve the traceability of goods, making it more difficult for illicit trade to occur undetected. For example, blockchain can be used to create a secure and transparent record of a product's journey from production to sale, thus making it easier to verify its authenticity and provenance. Combined, technological solutions can extend beyond the traditional approach of consulting blacklist-based static databases of known criminals. Data simulations can help customs understand the data that might provide most useful in identifying illicit trade shipments. Cross-chain analytics can create monitoring systems that dynamically recognize patterns, indicators, and signatures red flagging, which may be indicative of illicit trade or money laundering.

Technology can also be used to fight one of the most important illicit trade enablers: corruption. New technologies to create and record automated procedures in customs, transportation nodes, etc., with clear attribution rules and audit trails. Advanced digital identity verification technologies such as biometrics and facial recognition can help ensure that individuals engaging in clearance procedures record their actions and who they claim to be. Trustworthy and anonymous whistle-blower platforms can be a channel through which employees and individuals can report suspected illicit activities such as corruption without fear of retaliation.

Government-backed advanced digital identity verification technologies can help certify identities in financial and digital transactions as well as help prevent identity theft and other forms of fraud. Cross-chain analytics systems enable cross-chain tracing of sources, movements, and verification of the destination of virtual assets across blockchains. It can also help attribute ownership to said crypto assets, helping to prevent the misuse of crypto assets. Digital technologies such as artificial intelligence and machine learning can also be used to improve the detection of illicit trade activities, such as the detection of counterfeit goods, fraudulent documents, or the identification of suspicious financial transactions.

3) How will these core policy recommendations help to reform Hubs of Illicit Trade?

As underscored above, there are both national and international steps to make countries less attractive to criminal actors and help them to avoid becoming or remaining Hubs of Illicit Trade. These approaches will vary due to the type of illicit trade facilitated in specific hubs, alongside the likelihood of engagement and implementation of national legislation.

Central America has the largest number of impactful policy recommendations, possibly indicating that as a region, it has the furthest to go to improve its position as a Hub of Illicit Trade. Whilst the analysis is designed as a guide, it helps frame the assessment of each Hub of Illicit Trade below.

Panama, Belize, and Guatemala in Central America



Colon Free Trade Zone, Panama

Panama, Belize, and Guatemala represent important regional hubs for both licit and illicit trades in Central America, as well as in the Caribbean and Andean countries. Illicit activities in this region are characterized by high levels of corruption and poly-criminality, with drug cartels, gangs, and transnational criminal organizations often involved in various types of trafficking and smuggling, including of drugs, arms, humans, wildlife, and counterfeiting such commodities as pharmaceuticals, cigarettes alcohol, shoes, and textiles, among other goods.³⁴

High levels of violence, murders, kidnappings, and extortion committed by various criminal actors are widespread in Central America, contributing to rising fears among citizens and facilitating further criminality. Belize in particular, is one of the most violent countries in Latin America, with some of the highest per capita homicide rates.

A high level of corruption in Central American countries is one of the enabling factors behind illicit trade and other types of criminal activities. Impunity remains a significant problem for all Central American countries. For example, a 2021 U.S. State Department report on human rights in Guatemala found that “impunity was evident in the port, airports, and Border Points Division (DIPAFRONT) of PNC [the National Civil Police] forces dedicated to investigating crimes involving national borders, such as drug trafficking, smuggling, contraband and evasion of paying taxes by moving money outside the country.”³⁵ In Panama, Belize, and Guatemala, safeguards against corruption are relatively weak, and anti-corruption mechanisms are generally ineffective. Judicial systems in all three countries are characterized by irregular applications of their anti-corruption mechanisms and insufficient resources. This is why the hub could significantly benefit from capacity building and assistance.

Illicit networks operating in Central American hubs of illicit trade rely on a wide range of legally operating international companies, including suppliers of raw materials and key inputs, distributors, shipping, postal, and logistics operators, and financial enablers, among other actors. Additional enabling factors facilitating illicit trade in this region include Panama’s exclusive maritime connectivity in Latin America and the Caribbean, Belize, and Guatemala’s proximity to markets in North America, political and administrative corruption, and huge volumes of container freight from China and other parts of the world, as well as relatively high levels of poverty and economic inequality among local populations.

Currently supply chain management policies are very limited, whilst the enabling activities of legitimate companies have been well documented throughout this white paper. This is why more comprehensive supply chain control policies, such as ‘know-your-customer’, international supply chain monitoring and improved digital technologies would help disrupt illicit trade within the region. However, any such implementation would need to have significant commercial consequences to legitimate companies for failing to properly adopt any policies put forward.

Free trade zones (FTZs) in Central America, particularly the Colón Free Zone (CFZ) in Panama and the Corozal Zone in Belize, are the main hotspots of all types of smuggling although numerous ports in the region are also of growing concern. Their major vulnerabilities include lax operational rules, limited transparency, due diligence, and background checks of companies, and a lack of proper technology to identify and detect illicit merchandise.

For decades, the CFZ has had a long reputation as a smuggler's paradise where one can find various illicit goods - "whisky, cigarettes, medicines -- everything."³⁶

Similarly, the Corozal Free Zone in Belize is infamous as one of the largest smuggling hubs in Central America. Special customs control in Guatemala's FTZ creates the enabling environment for illicit activities. For example, weak oversight makes repacking and relabeling of smuggled commodities relatively easy, while regulatory and legal loopholes and a lack of standardization among FTZs facilitate trade-based money laundering.

The Free Trade Zones of Colon and Corozal in Central America are probably the greatest enablers of illicit trade within the region. With better enforcement and improved transparency within these FTZs, it would be much easier to identify and prevent the significant flows of illicit goods passing through these ports and into the wider market.

However, since these FTZs are important sources of employment and government revenues in their home countries, solutions must be developed that promote legal trade and employment opportunities in affected communities and offer alternatives to involvement in illicit trade. Community outreach programs can provide resources for education and job training, and build relationships between law enforcement and community leaders. This relationship can reduce the appeal of criminal organizations, challenge their narratives and ideologies as well as help prevent future recruitment.

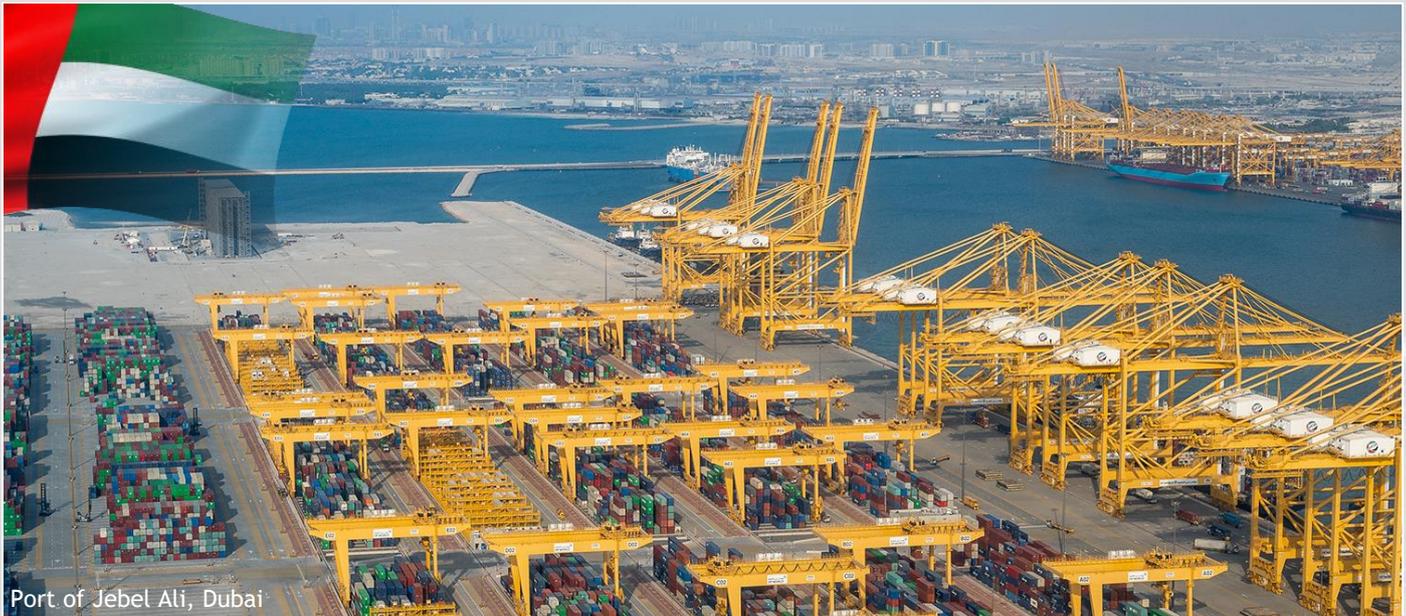
The hubs in Central America have been known as key offshore financial centers and money laundering activities as exposed by the Panama Papers -- a leak of more than 11.5 million financial and legal records of the Panama-based law firm Mossack Fonseca - which revealed the role of law firms, legal assistants, and financial consultants in setting up secret offshore companies aimed at hiding illicit proceeds and evading taxes.³⁷ In Panama, Belize, and Guatemala, services provided by lawyers, accountants, bankers, real estate agents, and other financial and non-financial actors are often used by criminal actors to create anonymous shell companies and launder money on a large scale.

Furthermore, criminal organizations utilize various trade-based money laundering schemes, including a black-market peso exchange when proceeds of drug trafficking are laundered through purchasing counterfeits and contraband goods in FTZs and then smuggled back to domestic consumer markets. A simple improvement could be made by implementing FATF recommendations. However, again, policies that target the enabling financial and logistical companies internationally would be equally effective assuming such recommendations are not implemented within the countries.

Overall, all three countries in Central America examined in this project pose an inherently high risk for the placement of illicit proceeds with the aid of such illicit trade actors and demonstrate a high level of resilience to law enforcement threats and external shocks. They often reallocate their activities in response to anti-illicit trade operations, which is known as a "balloon effect." The collusion between smugglers, and politically-connected investors, and law enforcement in the Central America countries is one of the most important factors behind their failures to combat illicit trades.

Additional international pressure placed on the governments of Central America, to implement policy reforms aimed at reducing corruption and improving governance, accompanied by the incentives of future financing or trade deals, will help to improve governance. These countries are likely to need additional support with capacity building and the implementation of technologies and governance to better enforce their laws.

Dubai in the UAE



Dubai has emerged as one of the world's largest hubs for arms trafficking, trade in illicit cigarettes, counterfeit goods, and drugs, human trafficking and smuggling, money laundering, and other illicit activities.³⁸ Given its strategic location at the nexus of trading and shipping routes connecting Asia, Africa, the Middle East, the Americas, and Europe, Dubai and other UAE emirates have become a perfect storm and prime target for illicit actors manufacturing in and moving goods to destinations all over the world, as well as a financial safe haven.³⁹ Illicit trade actors often exploit vulnerabilities of Dubai's ports and free trade zones (FTZ), including weak procedures to inspect goods and a lack of adequate cooperation between zone and customs authorities.

From the ports and FTZs in Dubai and across the UAE, counterfeit foodstuff and electronics, fake perfumery and cosmetics, counterfeit pharmaceuticals and medical equipment, fake clothing and jewelry are transported in various directions around the world, and by various means of transportation. Alongside these goods, Dubai remains a hub for illicit trade in gold, as well as a major source of illicit cigarettes, with a 2017 report highlighting that the UAE was responsible for almost 6.8% of the global illicit cigarette market.⁴⁰

Dubai also plays a significant role in the global offshore industry. Its highly developed financial infrastructure and deficiencies in anti-money laundering regulations make Dubai one of the largest hubs for all types of money laundering, including trade-based money laundering and money laundering associated with gold trade and real estate.⁴¹ In fact, in a 2022 Financial Secrecy Index, the UAE was ranked 8th in the world on financial secrecy,⁴² which highlights its significant role in the global money laundering industry. In March 2022, the FATF placed the UAE on its "grey list" for increased monitoring due to deficiencies in its regime to counter money laundering, terrorist financing, and proliferation financing.⁴³

The vast wealth accumulated within Free Trade Zones in the UAE, potentially requires different approaches, including targeted black-listing of specific companies that are thought to work with corrupt or criminal organizations. Trade negotiations with these countries may also provide opportunities to incentivize governments to stop supporting black-listed organizations, in the absence of any changes in FTZ regulations or improvements to anti-money laundering rules. UAE has excellent enforcement capabilities. However, the lack of regulations within the FTZs and opportunities for money laundering have created a perfect storm for enabling illicit trade.

Ukraine and Neighboring Eastern European Markets



Ukraine has long been a convenient hub for illegal trade because it borders on several European Union (EU) countries and the Transnistrian region of Moldova, an area of unresolved conflict. As a transit state with high levels of corruption, Ukraine has long been fertile ground for the spread of the shadow economy, which produces a large percentage of unaccounted income from illicit trade. According to Ukraine's Ministry of Economy, the shadow economy of Ukraine was 31-32% in 2020-2021.⁴⁴ According to alternative sources, shadow markets in various sectors of the economy range from 30% to 60%, depending on the sector.⁴⁵

In early 2014, the Russian Federation started a war and annexed Crimea and occupied certain parts of the Donbas area in the eastern part of Ukraine. On February 24, 2022, Russia began a full-scale military invasion against Ukraine. Russian aggression and warfare in Ukraine have had a major impact on market structures and trade patterns, in part by cutting off many of Ukraine's traditional legal trade routes. The national economy of Ukraine has been virtually ruined. Production inside Ukraine has plummeted, as a consequence, prices in Ukraine as well as in neighboring countries have skyrocketed, with the fuel and lubricants markets especially strongly affected. Because of the war, control over Ukraine's western borders has increased significantly, resulting in noticeable shifts in illicit trade patterns (especially arms smuggling⁴⁶, which has become impossible in large quantities).

Wars always give criminals new opportunities for enrichment through illicit trade. Before the full-scale Russia's invasion, the main illicit trade sectors in western Ukraine were drug trafficking, counterfeit pharmaceuticals, illicit cigarettes and alcohol, human trafficking, oil products, counterfeit consumer goods, illegal timber export. Despite the presence of the war, efforts to combat counterfeit pharmaceuticals have continued. The impacts of the Russia-Ukraine war further expanded illicit trade across Eastern Europe, including the diversification of smuggling routes, the use of new transportation modes, and a higher intensity of drug smuggling through European ports due to the blockade and closure of Ukraine's major seaport infrastructure.⁴⁷

Moreover, Russia as a state has greatly escalated its participation in illicit trade in Ukraine. The Russian military has looted grain, various agricultural products and equipment, antiquities, art and other goods, and has been sending them to Russia or selling them in other countries. Russian looting and smuggling campaigns have been wide ranging and comprehensive, covering almost everything deemed to be of financial or cultural value.

Since the war has led to a massive displacement of Ukrainian residents, human trafficking has become a major concern. The UNHCR recorded 8,174,189 refugees from Ukraine across Europe as of 18 April, 2023.⁴⁸ Among them 5,044,039 persons were registered for Temporary Protection or similar national protection schemes in Europe.⁴⁹ The unprecedented number of refugees within Europe since the Second World War has created favorable conditions for human trafficking, including recruiting victims via online platforms. A very significant part of human trafficking comprises civilians, including children and prisoners of war who have been forcibly deported to Russia. Reports indicated thousands of Ukrainians were forcibly transported to some of Russia's most remote regions, and Russian authorities reportedly forcibly separated some Ukrainian children from their parents and gave the children to Russian families.⁵⁰

New criminal (illicit) markets have recently emerged (for example, trafficking of men subject to conscription, embezzlement of humanitarian assistance, and import of commercial goods under the guise of humanitarian aid). Nevertheless, the “old” illicit markets remain and are developing. For example, the illicit sale of tobacco products in the Ukrainian market in August 2022 reached almost 22%, which is 5% more than the weighted average of the previous year.⁵¹

The illegal market is changing as follows: many of domestic smugglers, who previously illegally exported cigarettes produced in Ukraine to Europe, have now changed their profile and “import” electronic cigarettes and liquids.⁵² The goods go mostly across the border with Poland and Slovakia.⁵³ Currently the electronic cigarette market in Ukraine is one of the largest in the world.⁵⁴ The illegal e-cigarette market is growing at a breakneck pace. By the end of 2022, more than 50% of electronic devices and smoking mixtures were smuggled into Ukraine.⁵⁵ According to experts’ estimates, sales of illicit alcohol products in 2022 were approximately at the level of 2021,⁵⁶ despite the fact that official sales of alcoholic beverages in 2022 fell by at least a third, and in some categories by 67%.⁵⁷

Systemic problems of corruption in Ukrainian customs continue to facilitate illicit trade. There has not been sufficient political will to remove corrupt officers from the custom service. Criminal clans continue to be an obstacle to positive change and reform of the customs sector and collusive relationships endure in this culture of impunity. Executive recruitment is not based on professional standards, but on the basis of loyalty to top management. According to experts’ calculations, losses due to smuggling reached UAH 300 billion per year (approx. \$7 895 000 000).⁵⁸ In Ukraine’s Criminal Code, there is no separate criminal liability for smuggling excise goods (which include tobacco products and alcohol). These problems and the absence of severe punishment for smuggling are among the key reasons for the endurance of illicit markets.

Large scale illicit trade across state borders is impossible without “collaboration” between corrupt high-ranking officials of the State Customs Service, law enforcement (officers of the Security Service of Ukraine, the State Bureau of Investigation, the Economic Security Bureau of Ukraine, the State Border Guard Service, and prosecutors), politicians and smugglers. In the last 4 years, the State Customs Service has already changed heads seven times. Large cash flows further fuel the expansion of illicit trade, providing new opportunities for bribery and enrichment of officials.

Much of the illicit trade in Ukraine is operated by criminal organized groups and criminal organizations that operate as criminal enterprises and control drug trade, human trafficking, illegal timber export, illegal arms trafficking, falsified and counterfeit commodities. Ukrainian investigative bodies rarely prosecute the leaders of the trafficking networks, but focus, instead on lower operatives. They also do not address the facilitators in legislative bodies, government or law enforcement. The majority of major traffickers, smugglers, drug dealers thereby avoid imprisonment.

To be more effective, Ukrainian law enforcement agencies should cooperate with relevant foreign and international bodies more actively. Since many forms of illicit trade are transnational by nature, and, therefore, harder to investigate along the entire supply chain, it is necessary to work with representatives of law enforcement agencies of destination countries and, if necessary, to create joint investigation teams.

For the Eastern European hub, centered on Ukraine, there is already significant evidence pointing to the fact that despite the war, Ukrainians are starting to take the steps that they need to improve the environment for tackling illicit trade. For example, in mid-2022, a special anti-crisis headquarters consisting of officials and businessmen to deal with the fuel and lubricants deficit was created, resulting in a drop of smuggled products leading to better supplies and a drop in fuel prices by the beginning of 2023. This had a positive impact on decreasing the illegal fuel activity of smugglers too. The joint incentives of international financing and EU membership are encouraging the government to work together with civil society watch dogs to take stronger steps to minimize corruption and combat illicit trade.

During and after a conflict, the decisions of other governments and international organizations can have a major impact on expanding or mitigating the explosion of illicit trade that usually accompanies long-lasting conflicts. In Ukraine’s case, for instance, the decision of EU countries to offer protection and social benefits to Ukrainian citizens who fled the country, and to allow them to participate freely in European labor markets has been critical in deterring human trafficking on the scale that is often found in conflict zones with large displaced populations. Likewise, donor policies and procedures in military equipment transfers, post-war reconstruction and humanitarian aid all need to include effective safeguards and a high level of transparency to avoid strengthening existing hubs of illicit trade and developing new ones.

Argentina-Brazil-Paraguay Tri-border (TBA) Area in South America



The Tri-Border Area encompassing Argentina, Brazil and Paraguay in South America is a major hub of illicit trade with significant cross-border smuggling and trafficking criminal activities. Paraguay acts as an important lynchpin in the TBA as a source, transit, and final destination for illicit trade.⁵⁹ For example, Ciudad del Este, the second largest city in Paraguay, is a well-known regional hotspot for licit and illicit trade such as counterfeits, weapons, drugs, and human smuggling.⁶⁰

Through free trade zones, TBA illicit flows have been negatively impacting the region and beyond. As illicit activities move out of the TBA into different territories in the continent, they cause spillover effects across the hemisphere, and globally through the Ports of Santos and Paranaguá, and other ports. Unlike other Hubs of Illicit Trade, the TBA predominantly serves the local population (within South America), with well-established illicit brands and distribution chains on the TBA's doorstep.

There are a series of characteristics specific to the TBA which make it such a vibrant hub of illicit trade. For one, its legal and illegal economic activity is firmly nestled in and facilitated by an environment of weak institutions and widespread corruption. This is why capacity building is identified as the most impactful immediate policy recommendation for the region. At the same time, the prevalence of porous borders, an immense maritime coastline along Brazil and Argentina, and a mobile border population make monitoring and controlling the illegal activity in this region extremely challenging for all three states concerned.

Corruption, contraband, falsification, money laundering, drug trafficking and trafficking in arms and people are seen as the most common crimes in the TBA, and it has been argued that together they generate a cyclical reciprocity whereby illegal goods are mostly falsified and used for smuggling while revenue from illicit activities, such as drug trafficking, is laundered to legalize assets. Therefore, making sure that the private and governmental sectors are effectively implementing and following anti-money laundering rules also needs to be prioritized.

High levels of corruption amongst governmental, political and diplomatic officials are particularly rife in the TBA allowing diverse international criminal and terrorist organizations (e.g., triads, Hezbollah) to operate with impunity - to bribe judges, buy forged documents and engage in any number of illicit activities that sometimes also overlap with legitimate economic activities in the region.

The TBA is characterized by the presence of dirty cops and administrators, corrupt mayors, judiciary, parliamentarians, customs officials, and airport managers and regulators.

**A GLOBAL SUPPLY CHAIN IS ONLY AS STRONG AS ITS WEAKEST LINK.
THERE CAN BE NO WEAK LINKS IN THE FIGHT AGAINST HUBS OF ILLICIT TRADE.**

4) Conclusion: What can the international community do to fight hubs of illicit trade?

To date, illicit trade hubs remain an understudied area, with significant data gaps in their analysis and policy recommendations. For example, there is a lack of specific analytics necessary for designing targeted interventions that address negative spillover effects of hubs of illicit trade on other locations along the supply chain.

The HIT project research underscores that criminal networks operating in hubs of illicit trade are characterized by a high level of resilience to external shocks and law enforcement operations. Therefore, it is important to monitor their dynamics over time, particularly in response to law enforcement interventions in order to avoid the so-called balloon effect when the disruption of one hub of illicit trade results in the reallocation of its illicit activities to another hub. This task requires developing new approaches for assessing hubs' resilience and the effectiveness of various disruptive strategies.

At a global level, the adoption of treaties and guidelines committing countries to fight illicit trade and improve transparency must be prioritized, across all hubs analyzed.

Alongside the adoption of such guidelines, other international recommendations include:

- > Ensuring there are no holes in the net for criminals to escape their illicit behaviors through effective regulation and cross-border law enforcement coordination;
- > Investing more resources and attention to funding research on the threats posed by, and inter-connections among, hubs of illicit trade globally;
- > Targeting crime convergence and disrupting illicit trafficking routes including effective enforcement, transparency, and monitoring of Free Trade Zones (and compliance with the OECD Recommendation on Countering Illicit Trade; Code of Conduct, and certification scheme);
- > Synchronizing anti-illicit trade strategies to target TBML, “money conduits”, and corruption nodes;
- > Establishing supply chain control mechanisms, i.e., due diligence, Track and Trace, etc. could help deter legitimate players from illicit trade;
- > Enhancing intelligence and information-sharing arrangements;
- > Leveraging inter-regional and global law enforcement networks; and
- > Adopting multi-disciplinary whole-of-government, whole-of-society security, law enforcement, and governance approaches.

Final Policy Considerations: It is important to encourage national coordination mechanisms to ensure a whole-of-society approach that can generate political will, address multi-faceted threats, and evaluate how government policy initiatives (including tax and regulatory policies) might affect the fight against illicit trade.

Governments that have been highly successful in fighting illicit trade have often introduced a whole-of-government anti-illicit trade task force(s) which has incorporated multiple departments, agencies and offices with a specific aim and objective. Such AIT taskforces should have the necessary law enforcement powers needed to conduct sufficient investigations and prosecutions, impose sanctions, and dissuasive measures. They also need to work with civil society and to learn from high-level investigative journalism.

Because hubs of illicit trade are complex with several interconnected black markets originating, transiting, or terminating in each one of them, public-private partnerships are a force multiplier that can help to fight cross-border criminality. Organized criminal networks are highly globalized and have the capacity to coordinate illegal activities on a global scale. In these networks, high rates of innovation in tactics, capabilities, and information sharing allow them to rapidly adapt to change and quickly counter state responses. Their networked globalized structure encourages the outsourcing of criminality and increasingly interfaces with local markets and players.

Thus, policies responses should not focus solely on the particular hubs but also extend to those countries where the illicit flows originate, transit, or end. This includes increasing international cooperation among law enforcement agencies to help identify and target the cross-border activities of criminal networks and disrupt their ability to operate across multiple jurisdictions. A clear example is that of key precursors. International cooperation and public-private partnerships are essential to conduct information sharing, inspections, and joint investigations of precursor production facilities, transport, and storage facilities, as well as to track its movement (and fraudulent documents) through the illegal supply chain using digital tracking technologies.

Appropriate policy responses should consider the chronic scarcity of the human and material resources of some of the hubs countries' enforcement agencies. The government should adopt intelligence-driven management and actions to neutralize criminal networks by targeting high-value targets (HVT). Thus, resources are employed to compromise or remove selected critical targets that can cause significant damage or disruption to the network's ability to function, as intended. These are targets that have significant importance or value and whose loss or disruption can have a substantial impact on the network's overall function or performance.

To be effective, awareness raising and education campaigns should focus on multiple interconnected harms and dangers of illicit trade hubs to sustainable development and global security. In terms of prevention, appropriate policy responses should aim to create an environment in which the cost of crime is high. In other words, police responses should aim to disrupt and increase risk within an illicit trade business model.

One step in this direction is to increase the cost of criminal practices (naming and shaming) while at the same time also incentivizing communities to lower the cultural acceptance of criminal practices. Hence, criminal policies should not only focus on crime but also on fostering private sector cooperation and civil society engagement, and encouraging market stakeholders to do the right thing in the first place.

Much can also be learned from best practices and standards and upholding good corporate responsibility values and standards of behavior. Therefore, it is important to create a culture of legality in which both companies and customers are socially conscious and demand social seals, ethical compliance, and certificates of origin for the products and services they provide, use, or buy.

In the end, utilizing diplomacy to strengthen political will and law enforcement cooperation can lead towards greater judicial action and accountability within hubs of illicit trade. Cross-border cooperation including between public and private actors can lead to synergies necessary for disrupting transnational illicit supply chains and fighting related corruption and money laundering. Applying political pressure to encourage local action remains complex, but important.

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