

Countering Corruption and Illicit Trade to Secure Greater Prosperity in Central America

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Anti-Comercio Ilícito en Centroamérica: Regulación, Cumplimiento y Seguridad Nacional
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¡Buenos días!

Es para mí un gran placer estar con ustedes esta mañana para conversar sobre Acciones para combatir la corrupción y el comercio ilícito en Centroamérica: “Regulación, Cumplimiento y Seguridad Nacional.”

Ahora cambiaré y hablaré en inglés.

Let me first applaud the American Chamber Costa Rica for organizing this event, as well as the other sponsors and partners. I also applaud the AMCHAM and its 400 members for making anti-illicit trade a matter of greater importance.

It is a honor to participate in this outstanding dialogue with Alberto Arguedas, Director Ejecutivo, AmCham Costa Rica; Luis Carlos Castillo Fernández, Vice Ministro de Seguridad Pública, Costa Rica; Héctor Gustavo Villatoro, Ministro de Seguridad, El Salvador; Juan José Vides, Director de Aduanas, Honduras; Axel Romero García, Gerente de Comisión de Defensa del Comercio Formal, Cámara de Industria de Guatemala; and Mauricio Vieira, Director de la Cátedra de Lucha y Prevención del Comercio Ilícito y el Crimen, United Nations University for Peace (UPEACE).

I too would like to thank the governments and participants who are with us this morning and thank them for their commitment to work to counter illicit trade in the region, and across sectors and borders.

I do believe that it takes a whole-of-society approach to make strides in fighting corruption, organized crime, and illicit trade locally, and globally.

This is especially true in the current economic recovery where issues of governance, accountability, and the public trust are central to developing effective national strategies to nurture economic growth, jobs, safer communities, and market stability.

As a former U.S. diplomat, I respect the determination and aspirations of people committed to a free market, open borders, democratic principles, peace and security.

As we know, the United States and the international community are looking at multi-dimensional threats that imperil the rule of law and security, including corruption, organized crime, migration, illicit trade, and other social, political, and law enforcement challenges.

In today's world of insecurity, from the COVID-19 pandemic to the corruptive influence of violent criminal organizations and terrorist groups to the destructive consequences of climate change, illicit trade, and the proliferation and illicit trafficking of small arms and other weapons, vigilance and cross-border cooperation become more important than ever.

Let me share some thoughts on the current threat environment, one that is increasingly characterized by crime convergence that imperils our collective security.

In an inter-connected world, kleptocrats, illicit networks, terrorist organizations, and their complicit facilitators profit from such profound insecurity and instability that create the conditions for illicit economies, corrupt fragile government institutions, and criminalized markets.

Today's global illegal economy accounts for several trillions of dollars and possibly up to 7 percent of the world's gross domestic product (GDP). In Central America, billions of dollars are lost every year to corruption, organized crime, and money laundering.

When corrupt ruling elites and criminals manipulate weak governance structures, it distorts markets, and undercuts development.

When they launder the proceeds of their illegal activities and plundered assets, they finance chaos, inflame violence, disrupt stability, and expand inequality.

When we see the erosion of judicial independence and deliberate quashing of anticorruption investigations, democracy and the rule of law cannot take hold.

Through illicit commerce and the abuse of maritime containerized shipping and free trade zones (FTZs), counterfeits, illicit goods and contraband are flooding markets across the region, mostly from China and other parts of Asia. Latin America remains a transit point to the U.S. of fake products, with some posing great danger to all consumers such as counterfeit medicines, vaccines, or personal protective equipment (PPE).

President Biden has underscored how the United States is committed to a strong foreign policy that helps to secure the peace, prosperity, and stability including through alliances, public-private partnerships, and global institutions to address the challenges facing many nations.

Honduras, El Salvador, Guatemala, and the neighboring countries in the sub-region from Panama to Mexico are rightly viewed as a high priority in the US Congress and the Biden Administration.

I also concur with President Biden's statement when he said:

The challenges ahead are formidable. But if the political will exists, there is no reason Central America can not become the next great success story of the Western Hemisphere.

But we must be cleared-eye: realizing progress will not be easy. Both governments in Central America and the Biden Administration will be held accountable for whether they can work together to deliver a partnership that produces enduring achievements and successes.

We have a critical window to support dedicated champions of reform working the frontlines to strengthen cross-border cooperation and develop responses to confront today's converging threats.

It is all in our interests to succeed: When Central America does well and is thriving, citizens not only prosper economically, but so does the whole region with enhanced security cooperation and deepened regional economic integration.

So we must work together to build strong democratic and rule of law foundations to combat drug trafficking and corruption, build stronger judicial and criminal justice institutions that can engender public integrity, and avoid excessive regulations that hinder economic growth and development.

Effective implementation of regulations and enforcement of laws are critical to strengthen the political will and to successful regional economic integration.

Afterall, capital is a coward. It flees from corruption, over-regulation and bad policies, conflict and unpredictability. In essence, businesses and private investors are generally uncomfortable making capital investments in countries they perceive to be higher risk.

The Criminal Co-option of the State by Bad Actors

Before I outline some ideas on ways to strengthen collective action to more effectively combat cross-border illicit pathways in Central America, let me share some alarming trends facing the region.

The U.S. State Department has highlighted the destabilizing security threats over the years including how a significant percentage of cocaine entering the United States was through Mexico and the Central America corridor.

In Mexico, the Northern Triangle of Central America, and other parts of Latin America, corruption and criminal gangs have created some of the most dangerous communities with the highest homicide rates in the world.

Mara Salvatrucha (MS-13), the Mexican cartels, and other criminal organizations, along with a complicit kleptocratic network of government officials, have unleashed a violent storm of brutality and impunity.

The increased trafficking of drugs, arms, humans, and other contraband continues to fuel insecurity that contributes to the irregular migration of families to the United States trying to escape the extreme violence in the region.

Those who stay behind, become more desperate and vulnerable to recruitment by organized crime.

Among some of the drivers of such violence include high levels of armed conflicts, social inequality, economic impacts, high unemployment, increased gang and criminal activities, natural disasters, food insecurity, and other externalities.

A history of high kleptocracy, extortion, and pervasive corruption has also hampered democracy, efforts to improve transparency and accountability, while contributing to the mistrust of communities that governments can actually do good things for them.

Recently, through the release of the Pandora Papers (and earlier Panama Papers), we see clearly how entrenched corrupt officials, power elites, and criminals in Central America, and globally, can easily launder their dirty money with the help of professional enablers.

This includes the use of anonymous shell companies, trade-based money laundering (TBML), free trade zones, and hedge funds to reinvest the dirty money into real estate and other sectors of the legitimate economy, thereby diversifying their illicit wealth.

It is a reality that many reform champions, ethical judges, investigative journalists, and corruption fighters who have challenged the growing authoritarianism and kleptocracy in the region have been targeted and silenced.

Some have been murdered, while others are now are in exile.

We must continue to be vigilant against the chronic and systemic corruption that fuels organized crime and illicit trade.

We must fight back with every tool available, such as the US Government has done recently by depriving corrupt officials and their families of visas and access to the U.S. financial system, and through other Presidential Executive authorities and actions to combat corruption and transnational organized crime.

Hemispheric Insecurity: Violence and Organized Criminality

To tackle cross-border illicit threats, we must also grapple with the inter-connected criminal activities from other parts of the region.

In the United States, in addition to the need to address demand for narcotics and deadly opioids such as fentanyl, the illicit trafficking of weapons flowing South needs to end. The firepower employed by organized criminals and gangs these days is simply destructive. In too many instances federal and municipal security forces are out-resourced, outgunned, and overpowered

with military-grade equipment and weapons. The U.S. also remains a money laundering hub for dirty money. Such systemic weaknesses in the U.S. facilitate the movement of illicit proceeds and undermine regional efforts to combat financial crimes.

In Mexico, cartels and organized criminals have co-opted the government at all levels, and have diversified into other sectors such as agriculture, mining, and transportation.

Through their corruptive influence and billions of dollars earned through the trafficking in narcotics, human trafficking, weapons, dirty money, and other contraband, they now control strategic and critical infrastructure such as the country's major ports.

The significant infiltration and penetration of these criminal groups have destabilized regional security.

Since 2006, over 200,000 people have lost their lives as a result of the ruthless violence by the cartels in Mexico, with close to 40,000 deaths in 2020. In addition to innocent civilians, many hundreds of political leaders at the federal, state, and municipal levels, police officers, soldiers, judges, congressmen, and investigative journalists have been murdered. They also are able to finance their impunity through the strategic use of bribery, corrupting public officials at all levels of government, corroding rule of law institutions, and creating a climate based on fear ("plata o plomo").

Their reach is now global, expanding to other regions of the world particularly Africa, Europe, and the Asia-Pacific.

The Sinaloa cartel, the *Cártel de Jalisco Nueva Generación* (CJNG), and other Mexican organized criminal organizations continue to exploit illicit economies to grow their criminal enterprises through new income streams across Central America and the rest of the hemisphere.

This is also true for other gangs and criminal groups in Central America and the region. Many are going global, smuggling and trafficking in counterfeit and pirated goods. From their profits they are able to diversify with investments into other sectors of economy: These sectors include: luxury apparel; food and agriculture; oil and gas; mining; seafood; alcohol and tobacco; construction, and other industries impacted by illicit trade. This is why it is important that we support countries in the drafting and/or implementation of asset seizure legislation.

Escalating Regional Security Crisis Necessitates Action

The coercive impact, intimidation, and control of critical infrastructures, public institutions, and territories are critical to the success of illicit empires. For example, the cartels, Asian syndicates, and other bad actors wield great influence over the largest seaports in the region from Manzanillo and Veracruz in Mexico, Corozal in Belize, Colon in Panama, and many others from where they can launch their smuggling operations of an array of counterfeits and other contraband.

Through controls of these strategic assets, they are able to move illicit goods from one market to another, and beyond internationally.

For example, the *Cártel del Tabaco*, which has numerous business connections with the Jalisco Cartel (*Cartel Jalisco Nueva Generacion “CJNG”*) and Los Zetas and involvement of complicit corrupt officials, has illegally imported illicit cigarettes from China, UAE, India, Paraguay and other countries, including through the misuse of Free Trade Zones (FTZs) in Panama and Belize. In early 2020, the U.S. Department of Homeland Security (DHS) seized over 420 million cigarettes that were intended to be smuggled from U.S. while in transit to Mexico. This was the single largest illicit cigarette seizure ever recorded in the U.S., with a total value estimated at \$88 million. FTZs/bonded warehouses were instrumental in moving such contraband from the UAE and Panama into McAllen, Texas.

Illicit tobacco is not the only non-narcotics-related criminal market from which the cartels profit.

The avocado, fruit, fish, and meat industries now see the active involvement of the cartels to increase illicit wealth and launder their dirty money. Either through extortion of avocado and fruit farmers or seizing farms in the state of Michoacán, Mexico’s cartels have expanded into the food sector.

Illegal fishing in the Pacific Ocean has brought many types of fish close to extinction as Mexican cartels work with criminal syndicates in China to smuggle exotic fish into China and other Asian black markets. These Mexican-Asian criminal joint ventures are increasingly also involved in human smuggling, money laundering, and other illicit trafficking areas.

The oil and gas and mining industries are other sectors that have experienced increased criminal penetration by criminal organizations. They have also engaged in the extortion of iron ore mining and logging companies. In Colombia and Peru, the cartels are involved in illegal mining of gold, minerals, and other natural resources.

In Paraguay, and the tri-border in South America, a confluence of bad actors and threat networks export criminality and illicit financial flows through novel trade-based money laundering related to the trafficking of counterfeits, drugs, electronics, illegally-logged timber, and other contraband.

In fact, Hezbollah and other terrorist group sympathizers, continue to finance violence and insecurity throughout the tri-border area and other parts of Latin America. A clear example was the self-financing of the Hezbollah terrorist group for years in the Tri-Border area through cigarette smuggling, drug trafficking and other illicit operations.

Another example is the use of the routes by drug traffickers to smuggle or traffic other products.

The *Primeiro Comando da Capital (PCC)* is heavily involved in the very profitable smuggling trade out of Paraguay including counterfeits and illicit cigarettes used to buy weapons and corrupt officials throughout the country.

Criminalized Ports and Free Trade Zones (FTZs)

Illicit threats in one jurisdiction have ripple effects that impact many other jurisdictions especially when FTZs are exploited and misused by criminals and other bad actors, and when goods that originate from, or are trans-shipped, through FTZs are not subject to adequate export controls.

As I underscored earlier, through the corruptive and criminal control of ports and FTZs across the Americas, Asia, and globally, illicit networks are able to import licit and illicit goods to further expand their international illicit trade and export criminality and violence to other markets.

The exploitation of hemispheric cross-border trafficking and smuggling corridors includes illicit hubs in Panama's Colon Free Trade Zone, Isla Margarita in Venezuela, Maicao Special Customs Zone in Colombia, Ciudad del Este in Paraguay, the Aruba Free Trade Zone, Corozal Free Zone in Belize, and others.

Chinese criminal syndicates and Chinese money launderers are highly active across the hemisphere in laundering illicit proceeds and stolen assets, including through trade-based money laundering for criminal organizations, and in some instances, complicit high-level corrupt officials.

Moreover, criminals and complicit operators in unregulated zones continue to engage in deceptive trade and transshipment practices including fraudulent bills of lading, transactional invoices, and country of origin declarations, as well as mislabeling of goods, manufacturing illicit products, and laundering dirty money in many of these FTZs.

As the Global Financial Integrity (GFI) stated in their new report on financial crime in Latin America and Caribbean: TBML remains an important method that bad actors use to move and clean their dirty money by purchasing luxury goods in the United States in dollars – including footwear, sportswear, electronics, and other products – and exporting such goods for resale to countries in the Americas where the profits are legally integrated into the financial system.

This is why it is important to share information across border.

This past Friday, the U.S. Department of Justice announced new measures to combat corruption and organized crime in Central America as part of their Anti-Corruption Task Force. Anyone now who has information about corrupt and criminal actors who are moving proceeds of their crimes in or through the United States can report tips to the FBI to investigate, prosecute, and where appropriate, to confiscate assets derived through corruption or other crimes.

The United States should expand the Container Security Initiative in Guatemala to better secure the import of illicit drugs, counterfeits, and contraband.

Additionally, the United States, should consider supporting a regional intelligence fusion center – e.g., an América Central de fusion de inteligencia contra el crimen organizado transnacional – with

vettted and trusted partners across sectors to share intelligence to fight corruption and organized crime, track illicit financial flows, and to exchange best practices that help build strength in the criminal justice sector and independent judiciaries.

Let me commend the dedication and commitment of the U.S. Government working with our partners across Central America and the hemisphere to strengthen international cooperation to combat corruption and organized crime including our embassies, the U.S. Departments of Defense, Homeland Security, Justice, State, Treasury, USAID, other inter-agency departments and offices, and task forces including the Joint Inter Agency Task Force South (SOUTHCOM) and West (PACOM).

Evidence-based research, promoting rules-based principles, training civil society leaders and building capacities in Central America will also be important as is currently being done at the Terrorism, Transnational Crime and Corruption Center, (TraCCC), Schar School of Policy and Government, George Mason University, and through TraCCC's regional partnership with the United Nations University for Peace (UPEACE).

Advancing Anti-Kleptocracy and Anti-Illicit Trade Partnerships for Enforcement and Security in Central America

In closing, we must restore the faith in the rule of law and democracy by continually testing the political will of governments in the region and challenging ruling elites and criminal power structures.

We cannot continue to turn a blind eye and ignore the destructive impact that these threats have to economic development, prosperity, and stability in Central America. If there is one thing that I have learned over the years, corrupt elites and wealthy criminals are most afraid of losing their power, and especially their financial assets.

With the recent creation of the U.S. Department of Justice's **Task Force to Combat Corruption in Central America**, I hope that the United States works with other committed governments, and private sector watchdogs, to report financial crimes that lead to greater investigations and prosecutions of kleptocrats and criminals. The DOJ Anti-Corruption Task Force should pierce the veil of anonymous shell companies through beneficial ownership transparency, and garner intelligence to hunt and track down criminally-derived assets and confiscate them including in U.S. financial institutions, real estate, and other sectors where dirty money is laundered and re-invested in legitimate sectors.

I also believe that sanctions should continue to be employed more robustly against jurisdictions and individuals that are facilitating and enabling today's violence, criminality, and corruption.

In this regard, I do hope that the U.S. Congress leverages its legislative muscle more in the region with new authorities, measures, and funding to inform necessary reforms.

We must also encourage multilateral lending institutions and bilateral donors to make good governance and anti-corruption conditional requisites for foreign assistance and national lending.

We must transform the region as a whole with a responsible regional economic integration initiative such as what the Marshall Plan did for Europe after WWII. Such an initiative can incentivize the public and private sectors to invest critical resources into regional markets, bring greater innovation, create economic opportunities and good jobs for workers, and secure communities.

We must jointly instill confidence in markets, and enhance transparency and predictability in the business environment.

As Chair of the Business at OECD Anti-Illicit Trade Expert Group (AITEG), we are working to safeguard economic recovery by fighting against illicit trade through collaborative public-private partnerships, and to ensure countries recoup revenues lost to criminalized markets.

We must avoid excessive regulations while implementing appropriate legal and policy frameworks that lead to more effective enforcement to tackle illegal trade, e.g., import bans, packaging regulation, or excessive tax increases.

At the end of day, regulations and policies that are not enforced do not help nor instill confidence in markets and responsible governance.

In this regard, Costa Rica, which has strong political will and institutional capacity and democratic governance, is a model to build from in the region. But while it may have the institutions to tackle issues of illicit trade locally, the challenges we are discussing today impact the entire region, and it may also be targeted by cross-border organized crime to launder dirty money across sectors of its economy. Costa Rica and other partner countries must be a critical part of the Biden administration's holistic security approaches to the region.

This is why it is important for forums like the one hosted this morning by the AMCham Costa Rica to bring together private and public sector leaders and coalitions for more demonstrable action for improved governance and security cooperation.

Civil society groups must actively be supported as a catalyst for economic, social, political progress, and to bring about reforms. They too must be protected as well.

No one community alone can combat cross-border security threats. It is a shared responsibility.

Together, we can turn today's challenges into enduring opportunities for brighter horizons. We can build better, and we must.

Our posterity will judge us on whether we squandered another opportunity, or seized the moment to create a better path for safer, more secure communities tomorrow.