



Hubs of Illicit Trade Project Summary

May 2023



Introduction

In February 2021, the Terrorism, Transnational Crime and Corruption Center (TraCCC) at George Mason University and its Anti-Illicit Trade Institute (AITI) embarked on a two-year research project to examine hubs of illicit trade around the world. Academic literature and studies have shown that illicit economies facilitate the production, illegal trade, and trafficking of counterfeit and contraband goods. In particular, such studies have shown that a significant proportion of the trafficking in illicit goods and contraband can be traced to a small number of hubs which serve as safe havens that specialize in illegal manufacturing, diversion, transshipments, and cross-border smuggling, while some of them also serve as centers for money laundering, including trade-based money laundering, and other supportive crimes.

The *Hubs of Illicit Trade* project features a series of outputs, including a final report, four regional hub reports, and a policy white paper, all of which are publicly available on the TraCCC website. This executive briefing document provides a summary of the research. During the course of the project, a series of webinars were hosted by TraCCC to highlight the research and create dialogue to address new challenges related to hubs of illicit trade. These webinars attracted a diverse set of stakeholders from across the world, with backgrounds in policy, law enforcement, government, academia, the private sector, and civil society. The first major output is a white paper titled ***“Internationalizing the Fight against Hubs of Illicit Trade and Criminalized Markets,”*** which serves as a policy brief to provide a series of recommendations. It is based on the evidence-based research undertaken throughout the *Hubs of Illicit Trade* project, with a focus on Panama, Guatemala, and Belize in Central America, the Argentina-Brazil-Paraguay Tri-border area in South America, Dubai in the Middle East, and Ukraine in Eastern Europe. The research evaluated the threats associated with these hubs, their impacts, and common themes. They are covered in more detail in the final report titled *“Smugglers’ Paradises in the Globalized Economy,”* which is based on comprehensive regional reports prepared by international teams of researchers.

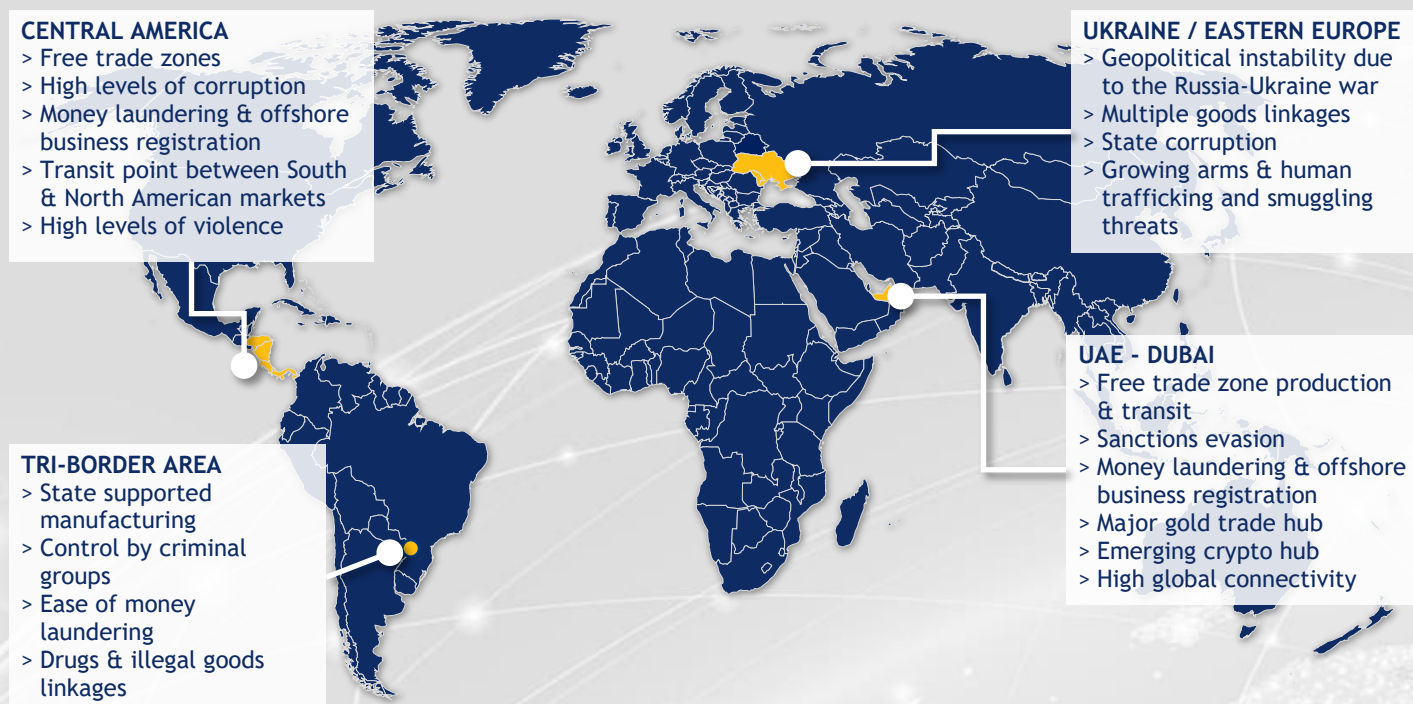
The white paper has been written for policy-makers — both within hubs and outside of hubs to assist them in fighting the increasing threats posed by rapidly growing illicit trades. It was launched at the *Institute for Preventing and Combating Money Laundering and Financing of Terrorism Conference* that took place in San Paolo, Brazil, in May 2023. The white paper launch was in conjunction with a presentation on the research from the Argentina-Brazil-Paraguay Tri-border area in South America. It will be followed by a series of other regional presentations focusing on specific issues in other hubs of illicit trade, with a view to launching the full research report at a planned conference organized by the World Customs Organization and TraCCC in Washington, D.C. in 2024.

Defining Hubs of Illicit Trade

Hubs of illicit trade are defined as geographic areas with 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, who provide supportive activities for illicit transactions. While hubs have a common set of characteristics, they also have some distinctive features, as explained in Figure 1.

Figure 1: Location and key features of hubs of illicit trade



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 money laundering, transportation and other services for smuggling networks

located within these hubs and in other parts of the world. Hubs that specialize in particular functions have a common set of characteristics and driving factors, as shown in Figure 2.

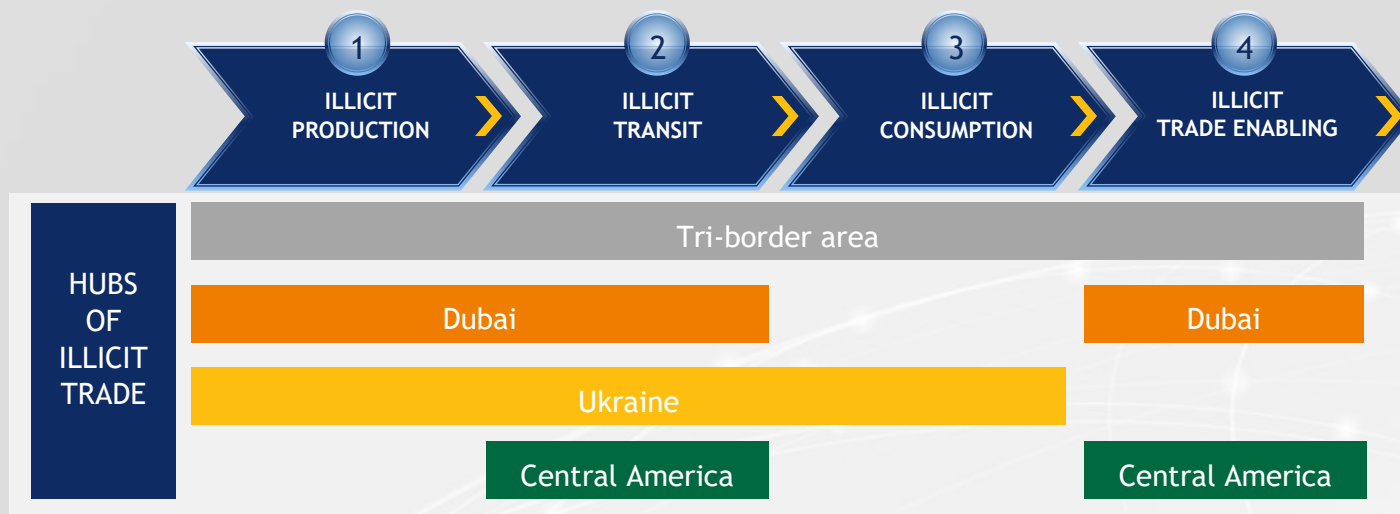
Figure 2: Common characteristics of hubs performing particular functions



Hubs of illicit trade play different roles within the global, subregional, and regional supply chains, as depicted in Figure 3.

Hubs' distinct sets of functions depend on their competitive advantages and regional trade patterns existing in the globalized economy.

Figure 3: Key roles played by hubs of illicit trade in the global and regional supply chains



Key findings

Hubs of Illicit trade host a wide array of different illicit trades and supportive activities. They range from gold smuggling, arms dealing, people trafficking and smuggling, and trade in contraband and counterfeit goods, including pharmaceuticals, cigarettes, alcohol, and textiles, among others.

It is difficult to quantify the exact volume of illicit trades in each hub. Yet, it is possible to highlight the scale and reach of illicit markets within hubs by using the Global Organized Crime Index and its specific indicators, together with some industry estimates, as shown in Figure 4.

Figure 4: Major illicit trades identified in hubs

HUB OF ILICIT TRADE	COUNTRY	ARMS From 1 (best) to 10 (worst)	PEOPLE (average) From 1 (best) to 10 (worst)	DRUGS (average) From 1 (best) to 10 (worst)	NATURAL RESOURCES From 1 (best) to 10 (worst)	FLORA & FAUNA (average) From 1 (best) to 10 (worst)	CIGARETTES Billion sticks
DUBAI	UAE	6.5	7.5	6.8	6.0	6.5	100
CENTRAL AMERICA	Guatemala	7.0	6.8	7.1	2.5	4.0	20
	Panama	6.5	6.8	5.9	6.0	7.0	
	Belize	4.5	5.0	4.1	3.0	5.0	
TRI-BORDER AREA	Paraguay	8.5	6.5	5.4	3.5	6.3	65
	Argentina	3.0	3.5	4.5	3.0	3.3	
	Brazil	8.0	4.5	5.8	8.0	8.5	
EASTERN EUROPE	Ukraine	8.0	6.8	4.3	7.0	5.3	20

Illicit trade scale & reach in 2021

Little	Moderate	Significant	Severe
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Sources: Global Initiative against Transnational Organized Crime (GI-TOC) & industry estimates.

All hubs of illicit trade studied have high levels of arms and human trafficking and smuggling. Trade in illicit cigarettes is also prevalent in each of the four hubs, as it generates enormous profits for criminals which are invested into other criminal activities.

The volume of illicit cigarettes produced and transited through the four hubs equate to approximately 50% of global illicit cigarette consumption.

The huge range of products within each hub drives the high levels of crime convergence and criminal activity.

While the hubs are distinct in terms of their geographical position and specializations, the project's key findings indicate they share many common attributes enabling their use as production, transit, and consumption points and staging grounds that support criminal activity.

KEY FINDINGS: HUBS OF ILLICIT TRADE

Poly-criminality & crime convergence in illicit trade hubs	<ul style="list-style-type: none"> > Illicit trade networks often share the same routes, transportation modes, resources, convergence points, and enabling networks. > Illicit trade is supported by document and accounting fraud, asset manipulation, abuses of shell corporations, cybercrime, corruption, and money laundering, among other crimes.
Use of legitimate companies to further means of illicit traders	<ul style="list-style-type: none"> > Illicit trade networks operating in hubs rely on a wide range of legally registered entities, including raw materials suppliers, manufacturers, distributors, transport, postal, logistics, financial, and accounting companies. > Unrestricted access to key inputs from legitimate companies operating in countries which are not hubs of illicit trade has enabled mass production of illicit goods. > Enablers in financial safe havens include 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 other crimes.
Increasing role of hubs in sanctions evasion	<ul style="list-style-type: none"> > Illicit trade networks operating in hubs utilize complex distribution and accounting arrangements to help corrupt states and designated actors evade sanctions. > The Illicit trafficking by Iran, North Korea, Russia, and Venezuela are illustrative modalities on how Panama, Dubai, and other hubs of illicit trade help evade sanctions, move illicit goods, and support modern dictatorships.
Negative spill-over effects on trading & neighboring countries	<ul style="list-style-type: none"> > Countries along supply chains face many consequences of illicit trade, often witnessing a drastic increase in criminal violence, illicit consumption, corruption, poverty, socioeconomic inequality, reduced public health, environmental degradation, and other negative implications.
Financial secrecy and deficiencies in financial regulations as enablers of illicit trade	<ul style="list-style-type: none"> > Illicit trade activities are facilitated by financial secrecy and deficiencies in financial regulations, which enable trade-based money laundering through gold and other commodities and money laundering through real estate. Emerging cryptocurrency hubs create further regulatory vulnerabilities abused by illicit actors. > Illegal currency transfers through smuggling by international carriers and through the secretion of currency in other items crossing borders enable the circulation of goods and money in illicit trade transactions.
Exploitation of vulnerable communities & states	<ul style="list-style-type: none"> > Illicit trade networks operating in hubs exploit vulnerable segments of society, including the poor, refugees, displaced persons, and economic migrants. > Illicit trade networks also exploit geopolitically unstable countries and fragile states.
Free trade zones as enablers of illicit production and transshipments	<ul style="list-style-type: none"> > Weak regulations in free zones, their limited transparency, insufficient use of technology to enforce or detect illegal merchandise, and lacking background checks for compliance facilitate illicit trade. > The presence of legitimate companies in free zones providing financial, real estate, logistics, transportation, shipping, and other services helps illicit traders and criminal organizations smuggle illicit goods. Suppliers of raw materials often ship their products to free zones used to manufacture illicit goods.
High levels of corruption	<ul style="list-style-type: none"> > Political corruption through bribes across multiple levels of seniority provides immunity from prosecution and access to key figures in government. > Weak levels of law enforcement and administrative corruption are endemic in hubs of illicit trade that often lack the political will to change the status quo by adopting stricter regulations and increased penalties for illicit trade activities.
Connections to violence & terrorism	<ul style="list-style-type: none"> > Many hubs of illicit trade are characterized by high levels of violence committed by drug traffickers, gangs, corrupt police, and security officials, with some of the highest homicide rates in the world registered in Central America and Brazil. > Even though some hubs of illicit trade, such as Dubai, have relatively low rates of violence, they might fuel violence in other countries along the supply chain, particularly in conflict-ridden and fragile states. > The illicit trade-terror convergence creates additional threats to global security.

Global indicators related to organized crime, an illicit trade environment, corruption, and financial secrecy can be used to calculate illicit trade risk levels associated with the four hubs.

Given multiple negative indicator scores, a large proportion of the countries hosting the hubs exhibited some of the highest illicit trade risk levels, as shown in Figure 5.

Figure 5: Illicit trade risk levels based on related global indicators

HUB OF ILLICIT TRADE	COUNTRY	Global Organised Crime Index From 1 (best) to 10 (worst)	Illicit Trade Environment Index From 0 (worst) to 100 (best)	Corruption Perception Index From 0 (worst) to 100 (best)	Human Trafficking Tier Tiers 1-3, & special cases	Financial Secrecy Index From 5 (best) to 1,951 (worst)	ILLICIT TRADE RISK LEVEL
DUBAI	UAE	5.8	68	67	2	648	VERY HIGH
CENTRAL AMERICA	Guatemala	6.5	46	24	2	265	VERY HIGH
	Panama	6.7	55	36	2	474	VERY HIGH
	Belize	4.6	35	NA	2	76	MEDIUM
TRI-BORDER AREA	Paraguay	6.7	43	28	2	72	HIGH
	Argentina	4.4	64	38	1	82	MEDIUM
	Brazil	6.5	51	38	2	135	HIGH
EASTERN EUROPE	Ukraine	6.2	38	33	2	125	HIGH

Country scores in 2022 or latest year available

Best Intermediate Critical Worst

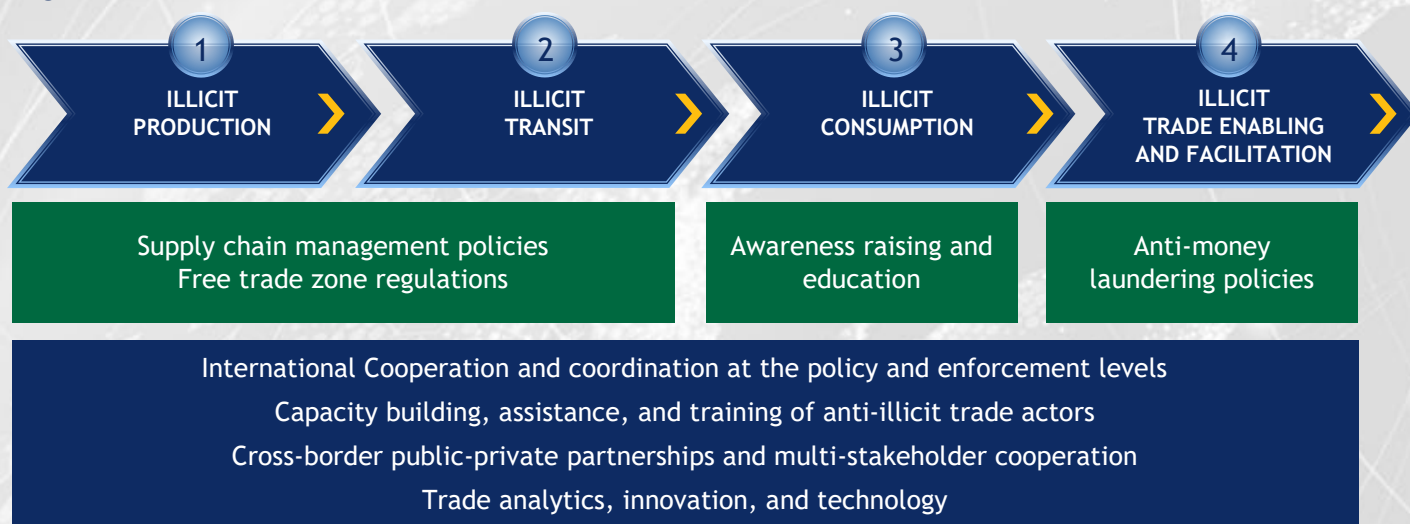
Sources: GI-TOC; Economist Intelligence Unit; Transparency International; U.S. State Department; Tax Justice Network.

Helping reduce the impact of hubs of illicit trade - Policy recommendations

Disrupting criminal activities in hubs of illicit trade requires a holistic strategy that simultaneously addresses all illicit activities and services performed in the hubs that host and facilitate illicit trade.

This requires specific policies to counteract illicit production, transit, consumption, and facilitation, such as money-laundering, as explained in Figure 6.

Figure 6: Policies to counteract illicit activities in hubs of illicit trade



There are a range of policy options to disrupt these hubs, which if implemented effectively, could significantly move the dial toward winning the battle against illicit trade. They are summarized in Figure 7.

Figure 7: Major recommendations to disrupt hubs of illicit trade

POLICY CATEGORY	KEY RECOMMENDATIONS	IMPACT ON HUBS OF ILLICIT TRADE
SUPPLY-CHAIN MANAGEMENT POLICIES	<ul style="list-style-type: none"> > Enhance and improve supply chain management policies, targeting both illicit traders and legitimate companies facilitating illicit trade: The majority of activities within hubs of illicit trade are undertaken by legitimate companies. However, their operations facilitate illicit traders, by supplying raw materials or providing services, such as banking or logistics. 	<ul style="list-style-type: none"> > As a manufacturing and distribution hub, the Tri-border area is dependent on raw materials. Restricted access to such raw materials would limit illicit production capabilities. > Dubai relies on legitimate companies to manage finance and logistics in the international legal supply chain. Stricter policies can reverse this situation.
FREE TRADE ZONE REGULATIONS	<ul style="list-style-type: none"> > Adopt and enforce transparent and accountable practices for free zones as recommended by the World Customs Organization (WCO), the World Trade Organization (WTO), and the OECD: Jebel Ali in Dubai and Colon in Panama are some of the largest free zones in the world, characterized by the lack of transparency and weak regulatory environments that enable criminals to manufacture and transit goods and evade detection. 	<ul style="list-style-type: none"> > Free zones and free ports play a critical role in illicit activities in all hubs of illicit trade. Stricter regulations can help reverse this situation. > Further moves towards transparency through enhanced technology and other control mechanisms in free trade zones can help prevent illicit operations.
AWARENESS RAISING AND EDUCATION	<ul style="list-style-type: none"> > Improve public awareness of challenges created by hubs of illicit trade: Many consumers are unaware of the global impact of hubs of illicit trade, including their enhanced corruption and financing of terrorism. > Launch education campaigns aimed at creating zero tolerance toward illicit goods and services and hubs of illicit trade: Many local communities show high levels of social acceptability of smuggling of cigarettes, alcohol, and other goods produced or transhipped through hubs of illicit trade to be sold in major consumer markets. 	<ul style="list-style-type: none"> > The Tri-border area serving domestic illicit markets of Brazil and Argentina would benefit from more awareness-raising and education campaigns focusing on the hub's negative impacts on all actors. > Consumption of illicit products from Ukraine in the European Union may inadvertently contribute to the Russia-Ukraine conflict, while sales of illicit goods from Central America in North American markets might fuel regional violence, highlighting the importance of raising awareness of these threats. > The UAE's role in sanction evasion needs attention.
ANTI-MONEY LAUNDERING POLICIES	<ul style="list-style-type: none"> > Enhance anti-money laundering regulations based on the FATF recommendations: Both Panama and the UAE are on the FATF grey list, indicating an environment in which it is easy for illicit trade actors to launder the proceeds of their crimes. Some hubs in Central and South America also have high levels of financial secrecy facilitating money-laundering. 	<ul style="list-style-type: none"> > Panama and the UAE have made high-level political commitments to work with the FATF to prevent the criminal ability to launder money through corrupt practices in the financial and non-financial sectors. > Major enablers across Central and South America can also be disrupted through stricter anti-money laundering regimes.
INTERNATIONAL COOPERATION AND COORDINATION AT POLICY AND ENFORCEMENT LEVELS	<ul style="list-style-type: none"> > Utilize international cooperation through diplomatic channels, specific treaties, and regional agreements to tackle illicit trade: Most hubs have been able to continue their operations without significant international pressure to change. Most hubs have not ratified either the Protocol to Eliminate Illicit Trade in Tobacco Products or obtained FATF membership. > Implement cross-border public-private partnerships and multi-stakeholder cooperation: Inter-jurisdictional issues linked with cross-border trade can be addressed through international organizations (e.g., the OECD) that can also put pressure on hubs of illicit trade through international financing and trade agreements. 	<ul style="list-style-type: none"> > Coordination with the United States would significantly help Central American hubs reduce illicit trade at the country and regional levels. Regional coordination is also necessary in other hubs. > Signing treaties regulating specific trades by those countries that have not done so would signal their anti-illicit trade commitments. > Signing treaties should be accompanied by the development and implementation of effective monitoring and evaluation mechanisms. For example, the Illicit Trade Protocol on tobacco products signed by Panama, Paraguay, and Brazil has a very limited impact on preventing illicit trade due to weak enforcement mechanisms.
CAPACITY BUILDING, ASSISTANCE, AND TRAINING OF ANTI-ILLICIT TRADE ACTORS	<ul style="list-style-type: none"> > Enhance capacity building through training, joint initiatives, data analysis, and a whole of government approach: All hubs are characterized by weak and inefficient law enforcement, low detection and prosecution rates, corruption, and limited use of new technology and data analysis. 	<ul style="list-style-type: none"> > All hubs need to reduce corruption through increased transparency and greater political will to prevent corrupt practices. > All hubs would benefit from joint initiatives to enhance capacity and use of technology and data analysis.

Concluding remarks

Disrupting criminal activities in hubs of illicit trade is necessary to reduce global illicit trade. Yet, there have been limited efforts to date to map and analyze areas with a high concentration of illicit trade and illicit finance at the regional and global levels. The Hubs of Illicit Trade project was launched by the Terrorism, Transnational Crime, and Corruption Center and its Anti-Illicit Trade Institute to fill out this gap. It contributes to anti-illicit trade efforts by providing a general framework for analyses of illicit trade hubs and developing a set of actionable evidence-based policy recommendations for different groups of stakeholders, including governments, private sector companies, non-profit organizations, and civil society.

As this research identified, hubs of illicit trade provide an ideal criminal ecosystem that supports the convergence of different illicit trades with other crimes, such as money laundering, corruption, tax evasion, cybercrime, and terrorism. Moreover, hubs of illicit trade pose multiple threats to sustainable development and global security not only within countries along the supply chains, but also at the regional and global levels. The White Paper and the Final Report prepared within this project explore hubs of illicit trade in greater depth, leveraging the wealth of regional and country-level research conducted by international teams. For more information, see the Hubs of Illicit Trade Project official webpage at <https://traccc.gmu.edu/projects/current/hubs-of-illicit-trade-hit>.



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