



# Internationalizing the Fight Against Hubs of Illicit Trade & Criminalized Markets

## HUBS OF ILLICIT TRADE (HIT) PROJECT

White Paper — TRACCC

May 2023



# 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 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.
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- Kupatadze, A. (2023). *Regional Hub of Illicit Trade: Ukraine*. TraCCC.

The authors thank the reviewers of the report and colleagues at TraCCC who provided recommendations and suggestions, including Dr. Claudia Escobar Mejía, Eugenio Fernandez, Kasey Kinnard, and Mahmut Cengiz; and also thank Nick Hodsman for his expertise and diligence throughout this important project.



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# ACRONYMS & ABBREVIATIONS

<b>AI</b>	Artificial intelligence
<b>AITI</b>	Anti-Illicit Trade Institute
<b>AITTFs</b>	Anti-illicit trade task forces
<b>EAG</b>	Eurasian Group of the Financial Action Task Force
<b>EU</b>	European Union
<b>FATF</b>	Financial Action Task Force
<b>FCTC</b>	Framework Convention on Tobacco Control
<b>FIUs</b>	Financial Intelligence Units
<b>FTZs</b>	Free trade zones
<b>HIT</b>	Hubs of illicit trade
<b>GAFILAT</b>	Financial Action Task Force of Latin America
<b>ICRC</b>	International Committee of the Red Cross
<b>IMF</b>	International Monetary Fund
<b>ITP</b>	Protocol to Eliminate Illicit Trade in Tobacco Products
<b>MENAFATF</b>	Middle East and North Africa Financial Action Task Force
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OECD TF-CIT</b>	OECD Task Force on Countering Illicit Trade
<b>POWs</b>	Prisoners of war
<b>PPPs</b>	Public-private partnerships
<b>TBA</b>	Tri-Border Area
<b>TBML</b>	Trade-based money laundering
<b>TraCCC</b>	Terrorism, Transnational Crime and Corruption Center
<b>UAE</b>	United Arab Emirates
<b>UN</b>	United Nations
<b>UNCAC</b>	United Nations Conventions against Corruption
<b>UNHCR</b>	United Nations High Commissioner for Refugees
<b>UNICEF</b>	United Nations Children's Fund
<b>UNTOC</b>	United Nations Conventions against Transnational Organized Crime
<b>WBG</b>	World Bank Group
<b>WCO</b>	World Customs Organization
<b>WTO</b>	World Trade Organization

# EXECUTIVE OVERVIEW

Due to the low-risk and high-reward nature of illicit markets, more and more criminals, threat networks, corrupt facilitators, enablers, and money launderers are gravitating to hubs of illicit trade to generate greater profits. Through diversion, counterfeiting, trafficking, and smuggling, these “bad actors” operating in illicit trade hubs are financing greater violence, insecurity, and instability from the criminally-derived proceeds, undermining the rule of law and democratic institutions. Such hubs no longer function solely as the source of illicit goods and services, 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. These practices also finance other destabilizing security threats, fuel impunity, contribute to environmental degradation, enflame violent conflicts, and undermine the effectiveness of public health and other national anti-crime and 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.<sup>1</sup> Recent research has shown that hubs of illicit trade and illicit economies facilitate the production, illegal trade, and trafficking of counterfeit and contraband goods.<sup>2</sup> The *Hubs of Illicit Trade* (HIT) project shows that a significant proportion of the trafficking in illicit goods and contraband can be traced to a small number of 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.<sup>3</sup>

This White Paper entitled “*Internationalizing the Fight against Hubs of Illicit Trade and Criminalized Markets*” serves as a policy brief to provide a series of recommendations based on the detailed evidence-informed research undertaken throughout the HIT project. The research evaluated the threats associated with the selected hubs, their impacts and common themes, which are covered in detail in the final report<sup>4</sup> based on comprehensive and detailed analyses of the four regional hubs of illicit trade: Panama, Belize, and Guatemala in Central America, the Tri-Border Area (TBA) encompassing Argentina, Brazil, and Paraguay in South America, Dubai in the United Arab Emirates (UAE), and Ukraine in Eastern Europe.

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

This White Paper outlines not only some of the threat challenges emerging across the hubs of illicit trade but also underscores 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 these hubs. Furthermore, based on the TraCCC’s current evidence-informed research, identifying hubs of illicit trade can help strengthen cross-border cooperation as outlined in numerous international conventions and frameworks, including the United Nations (UN) Conventions against Transnational Organized Crime (UNTOC),<sup>6</sup> the UN Convention against Corruption (UNCAC)<sup>7</sup>, the Organisation for Economic Co-Operation and Development (OECD) Recommendation on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones<sup>8</sup>, the Financial Action Task Force (FATF) Recommendations on Money Laundering and Terrorist Financing<sup>9</sup>, and treaties regulating specific trades, such as the Framework Convention on Tobacco Control (FCTC) and the Protocol to Eliminate Illicit Trade in Tobacco Products (ITP).



The HIT project's key findings are listed below:

KEY FINDINGS: HUBS OF ILLICIT TRADE	
<b>Crime convergence &amp; poly-criminality in hubs of illicit trade</b>	<ul style="list-style-type: none"> <li>&gt; Illicit trade networks often share the same routes, transportation modes, resources, convergence points, and enabling networks.</li> <li>&gt; Illicit trade is supported by document and accounting fraud, asset manipulation, abuses of shell corporations, cybercrime, corruption, and money-laundering, among other crimes.</li> </ul>
<b>Use of legitimate companies to further means of illicit traders</b>	<ul style="list-style-type: none"> <li>&gt; 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.</li> <li>&gt; Unrestricted access to key inputs from legitimate companies operating in countries which are not hubs of illicit trade has, in particular, enabled mass production of illicit goods.</li> <li>&gt; 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.</li> </ul>
<b>Increasing role of hubs in sanctions evasion</b>	<ul style="list-style-type: none"> <li>&gt; Illicit trade networks operating in hubs utilize complex distribution and accounting arrangements to help corrupt states and designated actors evade sanctions.</li> <li>&gt; 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.</li> </ul>
<b>Negative spill-over effects on trading &amp; neighboring countries</b>	<ul style="list-style-type: none"> <li>&gt; 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.</li> </ul>
<b>Financial secrecy &amp; deficiencies in financial regulations as enablers of illicit trade</b>	<ul style="list-style-type: none"> <li>&gt; 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.</li> <li>&gt; 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.</li> </ul>
<b>Exploitation of vulnerable communities &amp; states</b>	<ul style="list-style-type: none"> <li>&gt; Illicit trade networks operating in hubs exploit vulnerable segments of society, including the poor, refugees, displaced persons, and economic migrants.</li> <li>&gt; Illicit trade networks also exploit geopolitically unstable countries and fragile states.</li> </ul>
<b>Free trade zones (FTZs) as enablers of illicit production &amp; transshipments</b>	<ul style="list-style-type: none"> <li>&gt; Weak regulations in FTZs, their limited transparency, insufficient use of technology to enforce or detect illegal merchandise, and lacking background checks for compliance facilitate illicit trade.</li> <li>&gt; The presence of legitimate companies in FTZs 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.</li> </ul>
<b>High levels of corruption</b>	<ul style="list-style-type: none"> <li>&gt; Political corruption through bribes across multiple levels of seniority provides immunity from prosecution and access to key figures in government.</li> <li>&gt; 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.</li> </ul>
<b>Connections with violence</b>	<ul style="list-style-type: none"> <li>&gt; 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.</li> <li>&gt; 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.</li> <li>&gt; The illicit trade-terror convergence creates additional threats to global security.</li> </ul>

Source: HIT Project Final Report.<sup>10</sup>

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 below:

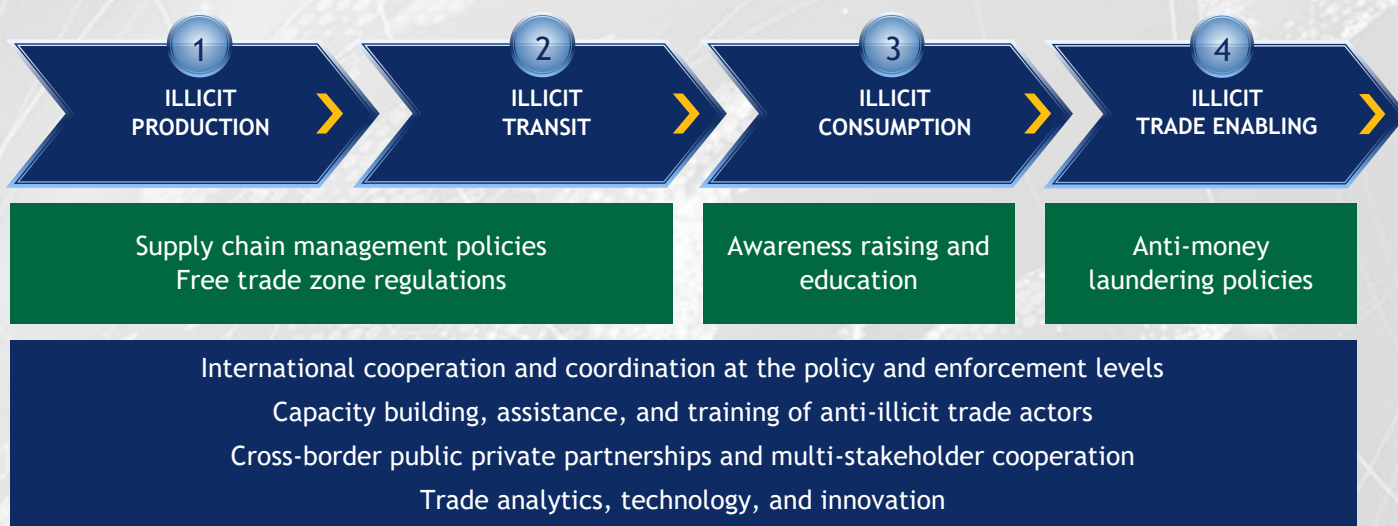
### KEY POLICY APPROACHES TO FIGHT HUBS OF ILLICIT TRADE

- > **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 or obtained full FATF membership.
- > **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. They facilitate illicit traders, by supplying raw materials or providing services, such as banking or logistics.
- > **Enhance capacity building, training, and the use of a whole-of-government approach:** Each hub has high levels of corruption, as evidenced by Transparency International's Corruption Perception Index.<sup>11</sup> Corruption can be combatted with better law enforcement and greater government commitments. It is also critical to improve the capacity of local law enforcement to use intelligence-driven management and apprehend high-value targets.
- > **Introduce 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 criminals to launder the proceeds of their crimes.
- > **Adopt and enforce transparent and accountable practices for FTZs, as recommended by the World Customs Organization (WCO), the World Trade Organization (WTO), and the OECD:** Jebel Ali in Dubai and Colón in Panama are some of the largest FTZs 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 the detection of their illicit activities.
- > **Implement cross-border public-private partnerships (PPPs) and multi-stakeholder cooperation:** It is important to work through international organizations, such as the OECD, the International Monetary Fund (IMF), and the World Bank Group (WBG), to pressure hubs of illicit trade, through international financing and trade agreements.
- > **Work with civil society to increase public awareness about challenges created by illicit trade hubs:** This includes mapping "negative consequence flows" from illicit trade hubs. Consumers are unaware of hubs' global impacts, including the enhanced corruption and financing of terrorism.
- > **Develop a long-term strategy aimed at addressing some of the root causes of the exploitation of vulnerable communities by illicit trade networks.** This approach should include the promotion of legal trade, education, and targeted programs to develop alternative livelihoods; as well as the support of investigative journalists and civil-society groups working to bring greater light on corruption and criminality across hubs of illicit trade.

Source: Authors.

The disruption of criminal activities in hubs of illicit trade is a new challenge that requires the development and implementation of specific policies to counteract illicit production, transit, consumption, and facilitation, such as money laundering, as shown in Figure 1.

**Figure 1: Policies to counteract illicit activities in hubs of illicit trade**



Source: HIT Final Report.<sup>12</sup>

# 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 opioids and other narcotics, weapons, humans, counterfeit and pirated goods, illicit 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 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.<sup>13</sup> Key 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 financial crimes.<sup>14</sup> The disruption of hubs of illicit trade, therefore, requires a holistic strategy that simultaneously addresses all their major functions, including illicit production, transit, and consumption of contraband and counterfeit goods, as well as their enabling and facilitating functions, as shown in Figure 2.

**Figure 2: Key functions of hubs of illicit trade**

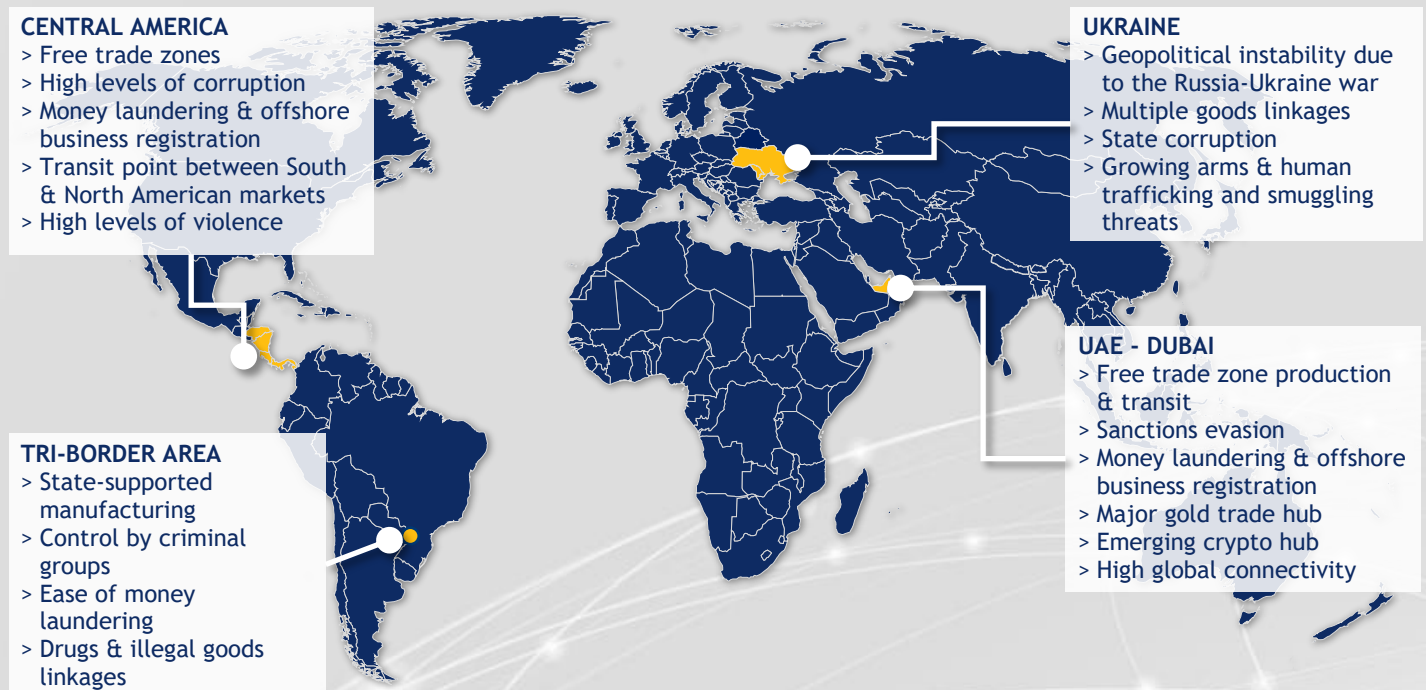


Source: Authors.

The HIT project examined the **four selected hubs** across a range of illicit trade sectors, including Panama, Belize, and Guatemala in Central America, the Argentina-Brazil-Paraguay TBA in South America, Dubai in the Middle East, and Ukraine in Eastern Europe. These four hubs of illicit trade were initially selected for their geographic diversity and recognition as 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. They are also interconnected with other hubs and illicit markets and are located near major challenging FTZs. Their key features are presented in Figure 3.



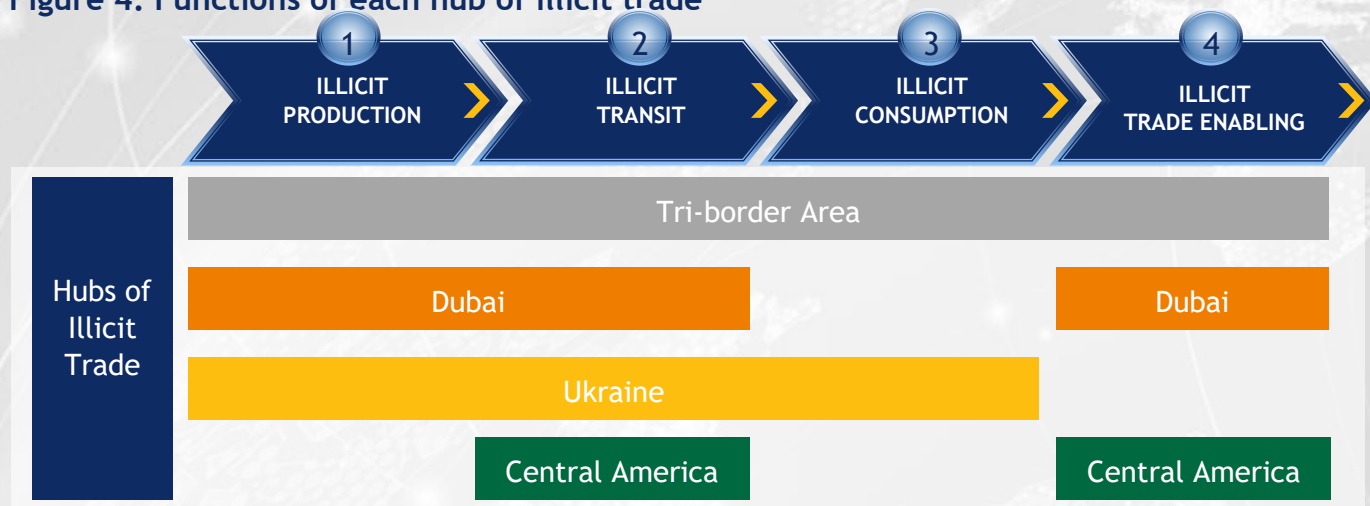
**Figure 3: Location and key features of hubs of illicit trade**



Source: Authors.

As indicated earlier, each hub has multiple functions. The TBA is both a manufacturing, distribution, consumption, and money laundering center, as shown in Figure 4. In comparison, Dubai has limited consumption and serves mainly as a manufacturing, distribution, and money-laundering center. Therefore, smuggling networks operating in Dubai stand to make significant profits, without impacting the wider local population in the UAE. Ukraine's production and transit role, fueled by a local market consuming the products, has changed significantly over the past year, but many of the policy recommendations remain 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: Functions of each hub of illicit trade**



Source: Authors.

Each hub studied is characterized by a high level of crime convergence and hosts a variety of illicit trades. At the same time, there are different factors responsible for their expansion and growth. Illicit trades hosted in these hubs include human trafficking and smuggling, trade in natural resources, COVID-related fake pharmaceuticals and personal protective equipment, consumer counterfeits, firearms, narcotics, tobacco, and other contraband. A favorable environment for all these illicit trades is facilitated by corruption, money laundering, including 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, FTZ, or hub to another. Recently, in a case involving illicit tobacco trade, the United States Department of Justice illuminated the crime convergence and cross-border illicit trafficking operations, including the abuse of third-party entities and anonymous shell companies that were engaged in illicit cigarette trade to evade national and international sanctions.<sup>15</sup> As illustrated in Table 1, which is based on estimates by inter-governmental organizations, the global values of illicit trades constitute a staggering several trillion dollars every year.

**Table 1: Global values of illicit trades and the related crimes in the context of specific hubs**

CRIMES	ESTIMATED GLOBAL VALUE (\$)	HUBS IDENTIFIED	SPECIFIC HUB INSIGHTS
<b>Money laundering</b>	At least \$2.6 trillion (2-5% of global GDP)	Dubai, Central America, TBA in South America	<ul style="list-style-type: none"> <li>&gt; The UAE and Panama's placement on the FATF "grey list" due to enabling money laundering on the international scale, including through gold and real estate</li> <li>&gt; Cash generated through Central American wholesale businesses, as illustrated by the Panama Papers</li> <li>&gt; Money laundered in the TBA, with Brazil serving as a key point in the placement and layering processes and a springboard to move illicit assets into the global market</li> </ul>
<b>Transnational crime</b>	\$1.6 trillion to \$2.2 trillion	All hubs	<ul style="list-style-type: none"> <li>&gt; Illicit goods imported from around the world and transiting through all hubs, allowing diverse international criminal and terrorist organizations to function and grow</li> <li>&gt; Use of black-market peso exchange schemes in Central and South Americas to launder proceeds of the drug trade and contraband</li> </ul>
<b>Narcotics trafficking</b>	\$750 billion to \$1 trillion	All hubs	<ul style="list-style-type: none"> <li>&gt; Ukraine's location on the opium route from Latin America to Europe</li> <li>&gt; Central America's transit role between South and North Americas</li> <li>&gt; Ciudad del Este at the heart of the TBA, known as a major smuggling hotspot in illicit trade</li> </ul>
<b>Counterfeited &amp; pirated products</b>	\$500 billion to \$1 trillion	All hubs	<ul style="list-style-type: none"> <li>&gt; Pharmaceutical counterfeiting worth \$200 billion a year, with 10% of substandard or falsified products in developing countries</li> <li>&gt; Almost half of brands (47%) affected by sale losses due to counterfeiting<sup>16</sup></li> <li>&gt; 1 out of 4 bottles of alcohol illicit<sup>17</sup></li> </ul>
<b>Environmental crime</b>	\$91 billion to \$258 billion	All hubs	<ul style="list-style-type: none"> <li>&gt; All hubs' involvement in environmental crime, especially wildlife and natural resources</li> <li>&gt; Illicit trade in sand leading to coastal devastation</li> </ul>
<b>Human trafficking</b>	Up to \$150 billion	All hubs	<ul style="list-style-type: none"> <li>&gt; Belize, Brazil, Guatemala, Panama, Paraguay, Ukraine, and the UAE's placed among Tier 2 countries by the U.S. Department of State due to deficiencies in trafficking victims' protection regulations</li> <li>&gt; Russia's invasion and war-induced migration making Ukrainians particularly vulnerable to human trafficking networks</li> <li>&gt; Increasing involvement of criminal gangs (e.g., MS-13 and Barrio 18) in sex trafficking due to its profitability and lower risks compared to narcotics.</li> </ul>
<b>Illicit tobacco</b>	\$40 billion to \$50 billion <sup>18</sup>	All hubs	<ul style="list-style-type: none"> <li>&gt; The UAE and Paraguay's role as major illicit manufacturing hubs, with an estimated amount of 165 billion illicit cigarettes</li> <li>&gt; Panama's Colón Free Zone serving as a critical transit hub for most illicit cigarettes consumed in Central America</li> </ul>
<b>Illicit gold</b>	\$12 billion to \$48 billion	Dubai, TBA, Central America	<ul style="list-style-type: none"> <li>&gt; Gold sourced from conflict areas and sanctioned countries transiting through South and Central American hubs towards the UAE and other major gold markets</li> <li>&gt; 46% of gold in Dubai from conflict-affected and fragile states</li> </ul>

*Source: Authors based on different sources and estimates by the OECD, the United Nations Office on Drugs and Crime, the European Union (EU), the World Economic Forum, and other inter-governmental organizations.*

The HIT project demonstrated how hubs of illicit trade are exploited by transnational criminal organizations 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 disruptive policies and 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?

Recent evidence-based research shows that illicit trade is booming globally, particularly 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. Specifically, 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. As indicated in the previous section, this strategy should be based on a set of policies that simultaneously address major functions performed by hubs. In turn, this 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).<sup>19</sup> 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
<b>International cooperation and coordination at the policymaking and enforcement levels</b>	<ul style="list-style-type: none"> <li>&gt; Ratification of international conventions and treaties regulating specific types of illicit trade.</li> <li>&gt; Strengthening bilateral and multilateral diplomatic channels.</li> <li>&gt; Providing access to international funding conditional on anti-illicit trade policy reforms.</li> <li>&gt; Trade facilitation &amp; harmonized policies related to taxation, penalties, customs procedures, FTZ regulations, etc.</li> <li>&gt; Enhancing law enforcement cooperation, data sharing, and the integration of hubs-related analytics into early-warning systems.</li> </ul>
<b>Supply chain management policies</b>	<ul style="list-style-type: none"> <li>&gt; Adopting policies to increase accountability and transparency in provenance jurisdictions of counterfeits.</li> <li>&gt; Complying with track and tracing, labeling, and record-keeping requirements.</li> <li>&gt; Adopting due diligence and know-your-customer practices along the supply chain to ensure that key inputs in illicit manufacturing are also controlled.</li> <li>&gt; Outlining legal responsibilities and imposing stricter penalties on legitimate companies and actors enable and facilitate operations of illicit manufacturers and distributors.</li> <li>&gt; Complying with licensing requirements.</li> </ul>
<b>Capacity building, assistance, and training</b>	<ul style="list-style-type: none"> <li>&gt; Establishing Joint Anti-Illicit Trade Task Forces.</li> <li>&gt; Strengthening local anti-corruption capacity.</li> <li>&gt; Launching new capacity building, assistance &amp; training initiatives at ports and other critical entry points for illicit trade.</li> </ul>
<b>Anti-money laundering policies</b>	<ul style="list-style-type: none"> <li>&gt; Adopting beneficial ownership &amp; anti-money laundering regulations based on international recommendations set by the FATF.</li> <li>&gt; 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).</li> </ul>
<b>FTZ regulations</b>	<ul style="list-style-type: none"> <li>&gt; Adopting and enforcing policies ensuring transparent and accountable practices for FTZs, drawing on recommendations developed by international and regional organizations, e.g., the WTO, the WCO, and the OECD.</li> </ul>
<b>Cross-border public-private partnerships &amp; multi-stakeholder cooperation</b>	<ul style="list-style-type: none"> <li>&gt; Enhanced cross-border public-private partnerships aimed at curbing illicit trade.</li> <li>&gt; Multi-stakeholder initiatives putting pressure on hubs of illicit trade at the country, regional, and global levels.</li> </ul>
<b>Awareness-raising &amp; education</b>	<ul style="list-style-type: none"> <li>&gt; Awareness-raising campaigns on multiple harms and threats of hubs of illicit trade to sustainable development and global security.</li> <li>&gt; Education on individual and organizational contributions to disrupting illicit trade hubs.</li> <li>&gt; Investigative journalism that informs a broader public of the harmful products being shipped through hubs of illicit trade.</li> </ul>
<b>Trade analytics, innovation, &amp; technology</b>	<ul style="list-style-type: none"> <li>&gt; Applying artificial intelligence, machine learning, blockchains, and other technological advances to prevent and detect illicit trade transactions.</li> <li>&gt; Collecting, analyzing, storing, and managing databases on all relevant aspects related to illicit products and services sold on online platforms and marketplaces.</li> </ul>

Source: HIT Final Report.<sup>20</sup>



## 2.1. International cooperation & coordination at the policymaking & enforcement levels

In addition to national laws to combat crime convergence, including an array of trafficking crimes, countries must leverage numerous international legal frameworks, treaties, and agreements to overcome governance gaps and combat illicit flows 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. It can also help support and promote cross-border cooperation, mutual legal assistance, and the sharing of information. The HIT project clearly showed strong linkages across hubs of illicit trade between corrupt officials and criminal actors. This is why it is critical to optimize cooperation between different countries hosting illicit trade networks through international treaties and membership in international organizations which mandate the adoption of anti-illicit trade regulatory frameworks. Table 3 lists some of the major treaties and current FATF membership of 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)	✗	✗	✓	✗	✓	✓	✗	✗
UN Convention against Transnational Organized Crime (UNTOC)	✓	✓	✓	✓	✓	✓	✓	✓
UN Convention Against Corruption (UNCAC)	✓	✓	✓	✓	✓	✓	✓	✓
Financial Action Task Force Full Membership	✓	✗	✓	✗	✗	✗	✗	✗

Sources: United Nations (n.d.); FATF (n.d.); & WTO (n.d.).<sup>21</sup>

The UNCAC contains numerous important provisions that can help to prevent corruption through the implementation of effective practices. It also has measures that strengthen cross-border cooperation on cases concerning corruption, bribery, and money laundering of illicit proceeds. The 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 the UNTOC create broad legal frameworks to promote and facilitate technical assistance, extradition, the exchange of information, and law enforcement cooperation among parties to these conventions. As all countries hosting illicit trade hubs studied in the HIT project have signed and ratified these conventions, their membership should be used as an opportunity to put these legal frameworks in place.

In terms of specific trades, the FCTC encourages the elimination of all forms of illicit trade in tobacco products, including smuggling, illicit manufacturing, and counterfeiting. The FCTC and the ITP help effectively fight illegal trade across source, transit, and demand markets of illicit tobacco products and other illicit goods.<sup>22</sup> The ITP also

addresses measures on supply chain control, including 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. All countries that have not done so should ratify the ITP and expand its provisions to other sectors.

## 2.2. 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 help brand owners to ensure supply chain integrity. Amazon Project Zero, for example, uses cutting-edge artificial intelligence (AI) 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.<sup>23</sup> Blockchain technologies also play a critical role in providing supply chain transparency, reliability, traceability, and efficiency through data collection and record keeping.

As highlighted earlier, the objective 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 illicit services have proved effective, such as the recent U.S. sanctioning of Cartes companies in Paraguay that underpinned huge swathes of TBA illicit activities.<sup>24</sup> Effective supply chain management policies require the imposition of penalties on companies that fail to undertake the necessary due diligence when supplying customers operating in hubs of illicit trade.

## 2.3. Capacity building, assistance, & training

As previously stated, weak levels of law enforcement, often underpinned by corruption, are a common feature of all hubs of illicit trade. A whole-of-society approach needs to be adopted given the challenges and limitations associated with investigating and prosecuting criminal cases in those situations where criminals use corruption to impede such investigations, avoid prosecution, and launder their illicitly-acquired proceeds. Countries that have established special task forces dedicated to fighting illicit trade made up of multiple government departments and accountable stakeholders have experienced certain progress in fighting illicit trade.

While many international treaties commit to greater assistance and capacity building, many countries hosting illicit trade hubs do not have the resources to invest in their disruption and, therefore, need support from the global community, both the public and private sectors, as well as civil society and journalism. Financing from international institutions, such as the IMF and the WBG, can play a significant role in supporting countries implementing and enforcing anti-illicit trade practices.

## 2.4. Anti-money laundering policies

As discussed earlier, 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. These 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).<sup>25</sup>

## 2.5. Free trade zone regulations

Some FTZs are notorious markets that bring together crime convergence and all sorts of illicit trades and an array of unsavory “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 Ciudad del Este in the TBA in South America, the Colón Free Zone in Panama, the Corozal Free Zone in Belize, and the Jebel Ali Free Zone in Dubai, for example, serve as key manufacturing, transshipment, and distribution hubs of illicit goods and contraband, including counterfeits, fake medicines, cigarettes, trafficked persons, and illegal wildlife parts, with a high concentration of criminal logistics within 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 FTZs. 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 a Code of Conduct.<sup>26</sup> 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 illicit trade and other criminal activities.

## 2.6. 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 PPPs includes the OECD TF-CIT which not only works to counter illicit trade in FTZs, but also addresses e-commerce challenges, illicit trade in fakes, and the misuse of containerized shipping and maritime transport channels. Specifically, it sponsors evidence-based research on dangerous fakes and illicit goods, illicit trade in vulnerable, high-risk sectors and global supply chains, and examines how corruption and money laundering fuel 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 in 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.<sup>27</sup> As of 2022, the Container Security Initiative was operational at 61 ports, covering over 80% of all containerized cargo imported by sea into the United States, including ports in Colón, Balboa, and Manzanillo in Panama, Santos in Brazil, and Dubai in the UAE.<sup>28</sup> 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.<sup>29</sup> Similarly, the extension of the Container Security Initiative to other ports in Central America has the 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.<sup>30</sup>

## 2.7. Awareness-raising & education

Awareness-raising and education initiatives help decrease the 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 among consumers, focusing on the dangers of buying illicit goods and the direct links to organized crime and terrorism.<sup>31</sup>

## 2.8. Leveraging innovation & 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 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 anti-illicit trade operations in the hubs.

Technological solutions can also significantly reduce the costs associated with anti-illicit trade efforts. Technology, for example, is a great ally for monitoring the transport of illicit goods. The convergence of transportation methods for several illicit goods leaves indicators and signatures that technological tools can help detect and monitor. Technology can also significantly enhance customs monitoring and reduce its costs. 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. AI-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 such data as the type of goods, weight, and origin.



Blockchains and other digital technologies can help improve the traceability of goods, making it more difficult for illicit trade to occur undetected. For example, blockchains 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 useful for 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 – by creating and recording automated procedures in customs, transportation nodes, and other trade-relevant areas, 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 true identity. Trustworthy and anonymous whistle-blower platforms can be a channel through which employees and individuals can report suspected illicit activities and corruption without fear of retaliation.

Government-backed advanced digital identity verification technologies can help certify identities in financial and digital transactions, as well as 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 crypto assets, helping prevent their misuse. Digital technologies, such as AI and machine learning, can also be used to improve the detection of illicit trade activities, including the detection of counterfeit goods, fraudulent documents, or suspicious financial transactions.

### 3. HOW WILL THESE CORE POLICY RECOMMENDATIONS HELP TO REFORM HUBS OF ILLICIT TRADE?

There are both national and international steps to make countries less attractive to criminal actors and help them avoid becoming or remaining hubs of illicit trade. These approaches will vary depending on the type of illicit trade facilitated in specific hubs, alongside the likelihood of engagement and implementation of national legislation. While the analysis in this section is designed as a guide, it helps frame the assessment of each hub.

#### 3.1. Panama, Belize, & Guatemala in Central America



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 drugs, arms, humans, wildlife, and counterfeiting such

commodities as pharmaceuticals, cigarettes alcohol, shoes, and textiles, among other goods.<sup>32</sup> 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.<sup>33</sup>

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”.<sup>34</sup> 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 these hubs could significantly benefit from capacity building and assistance related to the prosecution of illicit trade actors.

Illicit networks operating in Central American hubs rely on a wide range of legally operating international and national 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; 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, while 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 establish significant commercial consequences to legitimate companies for failing to properly adopt any policies put forward.

FTZs in Central America, particularly the Colón Free Zone in Panama and the Corozal Free 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 Colón Free Zone has had a reputation as a smuggler’s paradise where one can find various illicit goods – “whisky, cigarettes, medicines – everything”.<sup>35</sup> 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 also creates an enabling environment for illicit trade. Weak oversight makes repacking and relabeling of smuggled commodities relatively easy, while regulatory and legal loopholes and a lack of standardization among FTZs facilitate TBML.

With better enforcement and improved transparency within all 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 help build relationships between law enforcement and community leaders. Such relationships can reduce the appeal of criminal organizations and challenge their narratives and ideologies, thus preventing future recruitment.

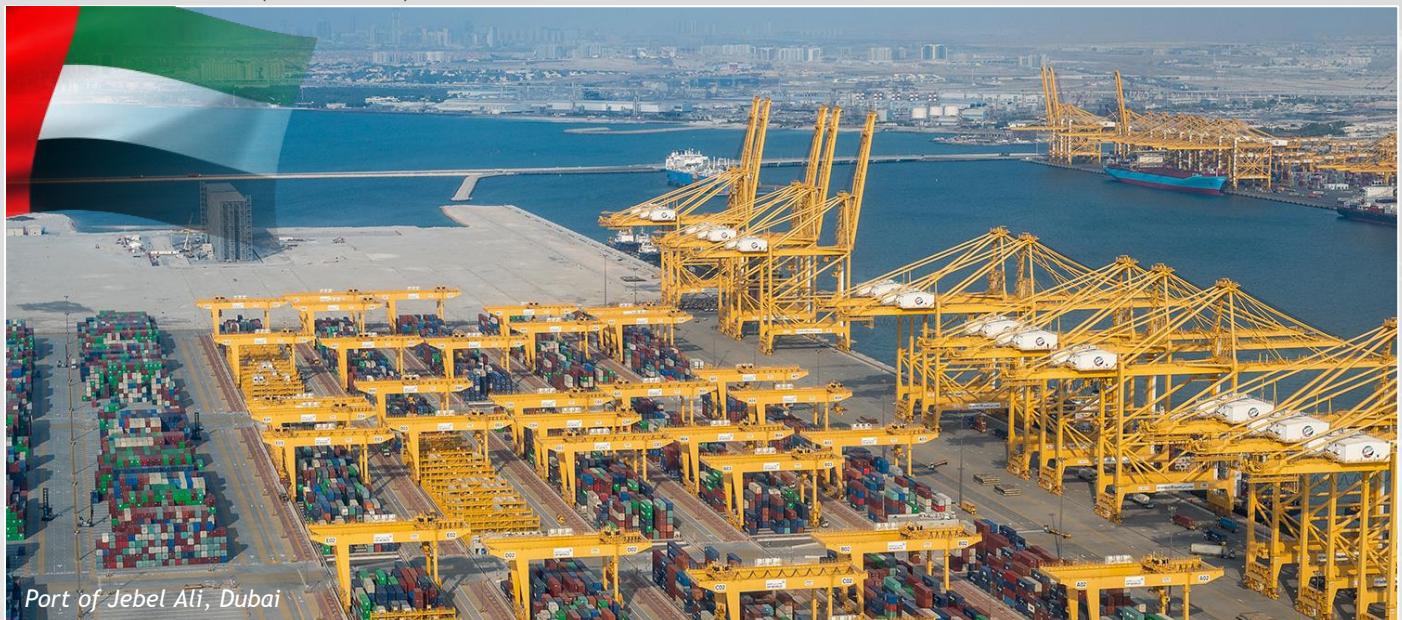
The hubs in Central America have been known as key offshore financial centers for money laundering, as exposed by the Panama Papers – a leak of more than 11.5 million financial and legal records of the Panama-based law firm Mossack Fonseca, which revealed the role of law firms, legal assistants, and financial consultants in setting up secret offshore companies aimed at hiding illicit proceeds and evading taxes.<sup>36</sup> 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 TBML 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.<sup>37</sup> A simple improvement could be made by implementing the FATF Recommendations. However, policies that target enabling financial and logistical companies internationally would be equally effective in those cases where national governments are reluctant to implement the FATF Recommendations within their 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 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, politically-connected investors, and law enforcement in the Central American countries is one of the most important factors behind their failures to combat illicit trade. 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 this situation. These countries, however, need additional support with capacity building and the implementation of technologies and governance to better enforce their laws.

### 3.2. Dubai (the UAE) in the Middle East



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.<sup>38</sup> 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 and moving goods to destinations all over the world, as well as a financial safe haven.<sup>39</sup> Illicit trade actors often exploit vulnerabilities of Dubai’s ports and FTZs, 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, and 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 an estimated 20-25% share of the black cigarette market.<sup>40</sup>

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 TBML and money laundering associated with the gold trade and real estate.<sup>41</sup> In 2022, the UAE was ranked 8<sup>th</sup> in the world on the Financial Secrecy Index,<sup>42</sup> which highlights the country’s 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.<sup>43</sup>

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



### 3.3. Ukraine in Eastern Europe



Ukraine has long been a convenient hub for illegal trade because it borders several 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 country's shadow economy was 31-32% in 2020-2021.<sup>44</sup> According to alternative sources, shadow markets in various sectors of the economy range from 30% to 60%, depending on the sector.<sup>45</sup>

In early 2014, the Russian Federation started an undeclared war, 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 licit and illicit trade routes. The national economy of Ukraine has been virtually ruined. Domestic production has plummeted, and as a consequence, prices in Ukraine, as well as in neighboring countries, have skyrocketed, which particularly strongly affected the fuel and lubricants markets. Because of the war, control over Ukraine's western borders has significantly increased, resulting in noticeable shifts in illicit trade patterns (especially arms smuggling,<sup>46</sup> which has become impossible in large quantities).

Wars always give criminals new opportunities for enrichment through illicit trade. Before the full-scale Russian invasion, the main illicit trade sectors in western Ukraine were drug trafficking, counterfeit pharmaceuticals, illicit cigarettes and alcohol, human trafficking and smuggling, oil products, counterfeit consumer goods, and illegal timber export. Despite the war, Ukraine has continued efforts to combat counterfeit pharmaceuticals. At the same time, 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, art, antiquities, 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 United Nations High Commissioner for Refugees (UNHCR) recorded 8,174,189 refugees from Ukraine across Europe, as of April 18, 2023.<sup>47</sup> Among them, 5,044,039 persons were registered for Temporary Protection or similar national protection schemes in Europe.<sup>48</sup> 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, as well as prisoners of war (POWs), who have been forcibly deported to Russia. Since the start of Russia's full-scale invasion, there have been several POWs swaps between the two countries, which is unprecedented in the history of wars in active phase. On the Ukrainian side, the Coordination Headquarters for the Treatment of Prisoners of War is responsible for such negotiations, and they are "currently the only format of communication [of Ukraine] with the Russian side."<sup>49</sup>

The situation with forcibly separated and deported Ukrainian children remains particularly worrisome. In January 2023, the International Court of Justice issued arrest warrants against President Putin and Russia's Commissioner for



Children's Rights Maria Lvova-Belova as responsible for the war crime of unlawful deportation and transfer of children from Ukraine's occupied areas.<sup>50</sup> As of June 3, 2023, 19,505 Ukrainian children, including those from orphanages, were reported as unlawfully deported to Russia, with only 371 of them listed as returned.<sup>51</sup> Yet, unlike the POWs-related negotiations, there were no official channels of communication between the two countries on the return of children, even though the war entered its second year. As a result, no official work has been done on the verification of all incidents on a case-by-case basis. Those Ukrainian children who managed to rejoin their families either returned thanks to the efforts of nonprofit organizations and volunteers<sup>52</sup> or were brought by their parents who had to travel to Russia through Belarus or other countries under the ongoing war conditions.<sup>53</sup> Due to lacking official communication in this area, the current situation requires urgent intermediary efforts by international organizations, including the UN Children's Fund (UNICEF) and the International Committee of the Red Cross (ICRC).

The war also resulted in the emergence of new illicit markets (for example, the 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 despite the war. 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.<sup>54</sup> The illicit market of electronic cigarettes has also been growing, with an estimated 50%-share of illicit goods, reportedly smuggled from Poland and Slovakia.<sup>55</sup> In 2023, the Economic Security Bureau of Ukraine also detained a group of electronic cigarette smugglers from the Chernivtsi region on the border with Romania and disrupted the domestic production and sale of illicit electronic cigarettes in the Lviv region.<sup>56</sup> Electronic cigarettes, both licit and illicit, also got a new functionality on the front line, where soldiers started to use vape batteries as power banks to charge drones, phones, and radios.<sup>57</sup> The full-scale war has also impacted Ukraine's alcohol market. Although a complete ban on alcohol sales introduced in February 2022, was canceled less than a month later, many Ukrainian local authorities adopted temporarily alcohol-related restrictions during the period of martial law.<sup>58</sup> According to experts' estimates, sales of illicit alcohol products in 2022 were approximately at the level of 2021,<sup>59</sup> although official sales of alcoholic beverages in that year fell by at least a third and in some categories by 67%.<sup>60</sup>

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 customs service. Criminal clans continue to be an obstacle to positive change and reform of the customs, and collusive relationships endure in this culture of impunity. Executive recruitment is not based on professional standards but on loyalty to top management. According to experts' calculations, losses due to smuggling reached UAH 300 billion per year (about \$7.9 billion).<sup>61</sup> 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, the State Border Guard Service, prosecutors, politicians, and smugglers. During the four-year period since its establishment in 2019, the State Customs Service has changed its heads seven times, which is indicative of organizational management challenges. Large cash flows further fuel the expansion of illicit trade, providing new opportunities for bribery and the enrichment of officials. Much of the illicit trade in Ukraine is operated by criminal organized groups and networks that act as criminal enterprises controlling the drug trade, human trafficking, illegal timber export, illegal arms trafficking, and falsified and counterfeit commodities. Ukrainian investigative bodies rarely prosecute the leaders of the trafficking networks, focusing instead on lower operatives. They also do not address the facilitators in legislative bodies, the government, or law enforcement. Most high-level traffickers, smugglers, and drug dealers avoid imprisonment.

To be more effective, Ukrainian law enforcement agencies should cooperate with relevant foreign and international bodies more actively. Since many illicit trades 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. There is already significant evidence pointing to the fact that despite the war, Ukrainians are starting to take steps to tackle illicit trade. For example, in mid-2022, Ukraine created a special anti-crisis headquarters consisting of officials and businessmen to deal with the fuel and lubricants deficit, resulting in a drop both in the quantity of smuggled products and fuel prices by the beginning of 2023. The joint incentives of international financing and EU membership are encouraging the government to work together with civil society watchdogs 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 wars. 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.

### 3.4. Argentina-Brazil-Paraguay Tri-Border Area (TBA) in South America



The TBA encompassing Argentina, Brazil, and Paraguay in South America is a major hub of illicit trade with significant cross-border smuggling and trafficking activities. Paraguay acts as an important lynchpin in the TBA as a source, transit, and final destination for illicit trade.<sup>62</sup> 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.<sup>63</sup>

Through FTZs, 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 Western 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 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 illicit goods are mostly falsified and used for smuggling, while revenue from illicit activities, such as drug trafficking, is laundered to legalize assets. Therefore, ensuring that the private and governmental sectors are effectively implementing and following anti-money laundering rules also needs to be prioritized.

High levels of corruption among governmental, political, and diplomatic officials are particularly rife in the TBA allowing diverse international criminal and terrorist organizations (e.g., triads and 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 corrupt police officers, administrators, 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 the 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 through effective regulation and cross-border law enforcement coordination that there are no loopholes in the net for criminals to escape their illicit behaviors;
- Investing more resources and attention to funding research on the threats posed by hubs of illicit trade and their inter-connections regionally and globally;
- Targeting crime convergence and disrupting illicit trafficking routes, including through effective enforcement, transparency, and monitoring of FTZs' compliance with the OECD Recommendation on Countering Illicit Trade, its Code of Conduct, and certification scheme, as well as the WTO and WCO recommendations;
- 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 systems, and other preventative measures that 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 the political will to address multi-faceted threats and evaluate how government policy initiatives (including in the tax and regulatory areas) might affect the fight against illicit trade. Governments that have been highly successful in illicit trade efforts have often introduced whole-of-government anti-illicit trade task forces (AITTFs) incorporating multiple departments, agencies, and offices with a common objective. Such AITTFs 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 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, PPPs 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, policy responses should not focus solely on particular hubs but need also to extend to those countries where the illicit flows originate, transit, or end. This task requires 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 PPPs are essential to information sharing, inspections, and joint investigations of precursor production facilities, transport, and storage facilities. They also help track their 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 enforcement agencies in some countries hosting hubs of illicit trade. The government should adopt intelligence-driven management and actions to neutralize criminal networks by targeting high-value targets. This approach means that resources are employed to compromise or remove selected critical 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 risks 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, by encouraging market stakeholders to do the right thing in the first place. In this process, much can 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 to 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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Terrorism, Transnational Crime and  
Corruption Center (TraCCC)  
Schar School of Policy and Government  
George Mason University  
3351 Fairfax Drive MS 3B1,  
Arlington,  
VA 22201  
[traccc@gmu.edu](mailto:traccc@gmu.edu)  
+1 (703) 993-9757

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