



Regional Hubs of Illicit Trade in Central America: Panama, Belize, and Guatemala

HUBS OF ILLICIT TRADE (HIT) PROJECT

Regional Report

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ACRONYMS AND ABBREVIATIONS

AITI	Anti-Illicit Trade Institute
AML/CFT	Anti-money laundering/Combating the financing of terrorism
CICIG	International Commission against Impunity in Guatemala
CODECOF	Commission for the Defense of Formal Commerce (Guatemala)
DHS	Department of Homeland Security (United States)
DIPAFRONT PNC	Border Points Division of the National Civil Police (Guatemala)
DTO	Drug trafficking organization
EU	European Union
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation (United States)
FinCEN	Financial Crimes Enforcement Network (United States)
FSI	Financial Secrecy Index
FTZ(s)	Free trade zone(s)
GAFILAT	Financial Action Task Force of Latin America
GAO	Government Accountability Office (United States)
GDP	Gross domestic product
IACHR	Inter-American Commission on Human Rights
ICE	Immigration and Customs Enforcement (United States)
ICIJ	International Consortium of Investigative Journalists
INL	Bureau of International Narcotics and Law Enforcement Affairs (United States)
IT	Information technology
ITP	Protocol to Eliminate Illicit Trade in Tobacco Products
OECD	Organisation for Economic Co-operation and Development
SENAFRONT	National Border Service (Panama)
TraCCC	Terrorism, Transnational Crime and Corruption Center
TTU	Trade Transparency Unit
UAE	United Arab Emirates
UN	United Nations
WCO	World Customs Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

This regional report was written within the Hubs of Illicit Trade project, a strategic evidence-based research initiative that was launched by the Terrorism, Transnational Crime and Corruption Center (TraCCC) and the Anti-Illicit Trade Institute (AITI) at George Mason University in 2022. Its key objective is to inform policymakers and communities about the interconnected harms and multiple compounding threats associated with hubs of illicit trade and to provide recommendations for their disruption by tackling their interconnected nature. This report focuses on Panama, Belize, and Guatemala as regional Central American hubs for illicit trade, money laundering, and sanctions evasion. Its key findings are summarized below:

KEY FINDINGS	
Crime convergence & poly-criminality	<ul style="list-style-type: none"> 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 a high level of poly-criminality, with criminal organizations and gangs often involved in various types of illicit trades, including drug and arms trafficking, human trafficking and smuggling, and counterfeiting such commodities as pharmaceuticals, cigarettes, alcohol, shoes, and textiles, among other goods.
Use of legitimate companies to further means of illicit traders	<ul style="list-style-type: none"> Criminal networks operating in hubs of illicit trade rely on a wide range of legally operating international and national companies, including suppliers of raw materials and key inputs, distributors, and financial enablers. Facilitators also include shipping, postal, and logistics operators. For example, criminal networks in Central and South America used aviation trust companies registered in the United States to facilitate illicit trade and drug trafficking. As the largest offshore vessel registration jurisdiction, smugglers often use Panama to disguise their identities, suspicious activities, illicit trade operations, and sanctions evasion.
Free trade zones (FTZs) as enablers of illicit production & transshipments	<ul style="list-style-type: none"> 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. Their major vulnerabilities include lax operational rules and limited transparency, due diligence, and background checks of companies, as well as corrupt practices and a lack of proper technology to identify and detect illicit merchandise. Many businesses in FTZs accept large volumes of cash for wholesale trade, while banks and money transfer services within these zones facilitate tax evasion and money laundering activities. To support the circulation of illicit goods and money, smuggling networks utilize various trade-based money laundering schemes, including a black-market peso exchange when proceeds of drug trafficking are laundered through purchasing counterfeits and contraband goods in FTZs and then smuggled back to domestic consumer markets. Smuggling networks increasingly use the so-called “triangulation” scheme when illicit cargos from FTZs in Central America make roundtrips to FTZs in the United States and then return to Central America. Such schemes allow smugglers to alter the cargo value, as well as to change the certificate of origin, a practice known as “origin laundering.” Central American FTZs also play a critical role in trade-based money laundering schemes used for smuggling goods from China, such as precursor chemicals. Owners and operators of FTZs in Central America have strong political and influential status and have close connections with powerful officials (e.g., current and former politicians, high-level customs officers, and members of Congress). This level of political influence, coupled with large resources, allows them to systematically block any attempt to change commerce regulations, improve control, or enhance data exchange and information sharing between national and international agencies.
Key enabling factors	<ul style="list-style-type: none"> Key enabling factors facilitating illicit trade in this region include Panama’s exclusive maritime connectivity, Belize and Guatemala’s proximity to markets in North America, political and administrative corruption, and huge volumes of container freight, as well as relatively high levels of poverty and economic inequality among local populations. The collusion between smugglers and law enforcement in Central American countries is one of the most important factors behind their failures to combat illicit trade. This is particularly obvious in the Guatemalan case, where the 36-year civil war between 1960 and 1996 left the country with a large military and intelligence apparatus that continues to control illicit goods smuggling and arms trafficking.

KEY FINDINGS

Financial secrecy & deficiencies in financial regulations as enablers of illicit trade	<ul style="list-style-type: none"> > Historically, Panama has been a key offshore financial center and a global hub for money laundering. Over recent years, it continuously ranks extremely high on the Financial Secrecy Index (FSI). Although Guatemala and Belize rank lower on the FSI, their secrecy scores are higher compared to Panama, meaning that their financial regulations have many loopholes. > 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.
Hubs' resilience	<ul style="list-style-type: none"> > Illicit trade actors operating in Central American hubs demonstrate high 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.” For example, Panama’s stricter offshore regulations increased offshore activities in the United States, Uruguay, Guatemala, and Costa Rica.
Connections with violence	<ul style="list-style-type: none"> > Illicit trades carried out in Panama, Belize, and Guatemala are associated with widespread violence in these countries and the entire region. Violent crimes, kidnappings, and extortion committed by drug traffickers, gangs, and corrupt local authorities are widespread in these countries, contributing to rising fears among citizens and facilitating further criminality.

This research is based on a combination of qualitative and quantitative data. Research methods include a case study analysis, in-depth interviews with subject matter experts, including industry representatives, government and law enforcement officials, and staff of academic and nongovernmental organizations. Secondary sources of information cover scholarly publications, investigative media publications, court documents and legislation, official statements, assessments, and evaluations, and reports by national law enforcement agencies, governments, and regional and international organizations. The data collection process also includes analyses of trade data from the United Nations (UN) Comtrade database and Panjiva global trade intelligence. For money-laundering analyses, the research uses data from the Financial Crimes Enforcement Network (FinCEN) Files, the Tax Justice Network, offshore leaks databases published by the International Consortium of Investigative Journalists (ICIJ), and reports by the Financial Action Task Force (FATF). The triangulation of various sources and methods facilitates data validation through cross-verification.

This report provides examples of illicit practices and schemes used by smugglers, identifies current trends in illicit activities, and analyzes key enabling factors behind their expansion. A myriad of illicit commodities and services are traded in Central American hubs, but this report focuses primarily on drugs, cigarettes, and arms. This selection allows for the right balance between offering plenty of detailed information and discovering general trends in illicit activities.

This report consists of six sections. Following the introduction featuring Panama, Belize, and Guatemala’s country profiles, the second section analyzes specific illicit trades concentrated in Central America’s hubs. The third section explores different types of illicit trade beneficiaries, including legitimate companies supporting the smuggling and trafficking of various commodities through Central America. The fourth section investigates the enabling environment for the proliferation and expansion of illicit trades in this region, with a focus on FTZs, financial and money-laundering infrastructure, and corruption. The next section presents a summary of national anti-illicit trade efforts in Panama, Belize, and Guatemala, followed by the concluding section featuring major policy recommendations for disrupting illicit activities in Central American hubs.

1. INTRODUCTION: COUNTRY PROFILES

Panama, Belize, and Guatemala are important regional hubs for both licit and illicit trades in Central America, as well as in the Caribbean and Andean countries. This section provides an overview of their country profiles, focusing on socioeconomic, demographic, and geographical factors relevant to studying their illicit economies.

1.1. Panama

Panama is a small transcontinental country located between the southern part of North America and the northern part of South America, bordered by Costa Rica and Colombia. It is connected to Colombia through the Darién Gap, a roadless swath of jungle that serves as a land connection corridor between Panama and South America. In 2021, Panama's population was estimated at 4.4 million people.¹ The country's unique geographical position with access to both the Caribbean Sea and the Pacific Ocean provides its exceptional connectivity and makes it a major trading hub in the region. Panama's economy is one of the strongest in the region, with its gross domestic product (GDP) estimated at US\$63.6 billion and GDP per capita at US\$14,618 in 2021.²

The country's economy heavily depends on the services sector linked to trade, shipping, and other activities via the Panama Canal. Transportation and logistics infrastructure, including ports and FTZs, coupled with relatively lenient tax and financial regulations, create a favorable climate for foreign investment and make this country attractive to both licit and illicit traders. In 2021, Panama ranked 17th of 193 countries on the Global Organized Crime Index.³ Panamanian ports serve as critical drug trafficking logistics hubs for cocaine smuggling to Europe.⁴ Illicit commodities and migrants from South America and other regions are also trafficked by land routes, such as the Darién Gap. In 2022, more than 250,000 people illegally crossed the Darién Gap.⁵ Other trade activities in Panama involve logging, wood trafficking (specifically cocobolo), illicit trade in animals, and smuggling of gold (mostly from Colombia) and other minerals.⁶

Table 1: The top counterfeit provenance economies, 2017-2019

RANK		COUNTRY	GTRIC-e
1		Hong Kong	1
2		Syria	0.998
3		China	0.998
4		Turkey	0.996
5		Dominican Republic	0.984
6		Pakistan	0.955
7		Georgia	0.933
8		Lebanon	0.872
9		Senegal	0.831
10		Afghanistan	0.761
11		Singapore	0.758
12		Benin	0.727
13		United Arab Emirates (UAE)	0.720
14		Morocco	0.694
15		Cambodia	0.684
16		Bangladesh	0.661
17		Curaçao	0.635
18		Panama	0.616
19		Tokelau	0.580
20		Albania	0.577

Source: OECD & EUIPO (2021).⁷

Panamanian FTZs have long been reported as major transit hubs for various types of counterfeit and contraband commodities. Panama is among the top 20 provenance economies in the world for all types of counterfeits (Table 1). The country has one of the highest scores on the General Trade-Related Index of Counterfeiting for Economies (GTRIC-e) globally. This index represents the relative likelihood of national economies to export counterfeits in comparison with other countries.⁸ Unlike Hong Kong, which is an important counterfeit production hub, Panama's role is limited mostly to a transit point for various types of counterfeits, including fake clothing, textile fabrics, perfumes, cosmetics, jewelry, footwear, electronics, and other commodities destined primarily for the United States, the Caribbean, and South American countries.⁹

Despite Panama's efforts to increase its financial sector transparency after the Panama Papers scandal, the FATF placed Panama on its "grey list" for increased monitoring in 2019. In response, Panama's government made a high-level political commitment to strengthen its anti-money laundering regime. Yet, it has achieved only moderate progress in this area. Among key inefficiencies of new regulations are their limited application, multiple loopholes, and exception rules decreasing corporate accountability in the country. In addition, the introduction of stricter offshore regulations in Panama resulted in the so-called "balloon effect" related to the reallocation of offshore companies to other countries, mainly the United States, Uruguay, Guatemala, and Costa Rica.

1.2. Belize

Belize is a small Caribbean and Central American country on the northeastern coast of Central America, with an estimated population of 400,000 people in 2021.¹⁰ It borders Mexico and Guatemala and shares its maritime boundary with Honduras. Belize has limited routes connecting it with other Central American countries, and it lies outside the main route that connects Mexico and Panama. Almost none of the land trades across Central America includes Belize, making this country highly dependent on maritime trade. In 2021, Belize's GDP was the lowest in Central America (US\$2.5 billion), yet, its GDP per capita ranked 3rd in this region (US\$6,228).¹¹

Drug-related homicides place Belize among the most violent countries in Latin America. With 31.3 homicides per 100,000 people in 2021, Belize ranked 2nd on violence in Central America, after Honduras.¹² Yet, in the same year, Belize had the lowest criminality score on the Global Organized Crime Index among Central American countries.¹³ While Belize's FTZs are infamous as smuggling hubs for various types of counterfeit and contraband commodities, its ports serve mainly as transit points for illicit trade outflows to neighboring Mexico, Guatemala, Honduras, and to further destinations in North America. Even though the country has made considerable efforts to improve its tax and financial regimes, it remains highly vulnerable to money laundering.

1.3. Guatemala

Guatemala is the most populous country in Central America, with an estimated 17.1 million people in 2021.¹⁴ The country's GDP was estimated at US\$86 billion (the highest in Central America) and its GDP per capita at US\$5,025 in 2021.¹⁵ Guatemala borders Mexico, Belize, Honduras, and El Salvador. Its central location, size, and mountainous geography with vast jungle areas make the country a crucial Central American trade hub, providing logistics, warehouses, and financial services, as well as a strategic corridor for illicit activities. Guatemala's organized crime groups have penetrated the political system and control many government agencies and officials who often provide them immunity from prosecution. As a result, the effectiveness of national law enforcement operations against well-connected criminal groups depends, to a large extent, on their cooperation with law enforcement and intelligence in the United States. For the latter, Guatemala represents a major security threat due to the cocaine trade, illegal migration, and human trafficking, as well as money laundering in real estate.

In 2021, Guatemala ranked 23rd in the world on the Global Organized Crime Index.¹⁶ Guatemala City, the country's capital, is considered one of the most violent cities on the planet. Although its murder rate has decreased over the last decade, it is one of the world's highest — 43.5 homicides per 100,000 people in 2019.¹⁷ This homicide rate exceeds that of many countries engaged in civil war. The drug trade is the main activity of Guatemala's criminal organizations and gangs, but they are also involved in human smuggling and trafficking, kidnappings, extortion, money laundering, arms smuggling, adoption rings, and other types of crime. Building on their operational activities and their connections with drug cartels from Mexico and Colombia, Guatemalan criminal organizations and gangs have developed well-established local contraband structures for smuggling food and other commodities. The next sections of this report provide a detailed analysis of the drug trade, arms smuggling, and illicit cigarette trade in the three Central American hubs featured in the report.

2. MAJOR ILLICIT TRADES IN CENTRAL AMERICAN HUBS

Illicit trade actors operating in Panama, Belize, and Guatemala are involved in various types of activities, including drug and arms trafficking, human trafficking and smuggling, and counterfeiting such commodities as pharmaceuticals, cigarettes, alcohol, shoes, and textiles, among other goods. This section provides a detailed analysis of illicit trades in drugs, arms, and cigarettes that are widespread in all three countries.

2.1. Drug trafficking

The United States Government includes Panama, Belize, and Guatemala among 22 major illicit drug-producing and transit countries.¹⁸ From a regional perspective, Central America has high risks of cocaine trafficking, particularly considering a recent increase in cocaine production, which has more than tripled in Columbia over the last decade.¹⁹ Increased cocaine trafficking from South America through Central American transit hubs to North American markets is linked to growing illicit flows of contraband and counterfeit commodities moved in the opposite direction and money laundering supporting their circulation. Central American countries and Mexico also serve as large hubs for methamphetamine and heroin production, while Belize and Guatemala are major sources of precursors and other chemical compounds necessary for narcotics production.

In Panama, the main transnational criminal organization involved in drug trafficking is the Urabeños, Colombia's group which partners with a local trafficking group called *Humildad y Pureza* (Humility and Purity). Other major transnational criminal organizations active in the country include the most powerful Mexican cartels, such as the Sinaloa Cartel, Los Zetas, the Beltrán Leyva Organization, and the Juárez Cartel. Panama's infrastructure and financial sector have become a trampoline for the international logistics of these organizations. Their operations are also linked to money laundering, corruption, and human trafficking.

As of 2019, Panama had the third lowest rate of marijuana consumption and the lowest rate of cocaine consumption among 15 Central and South American countries evaluated by the Inter-American Drug Abuse Control Commission.²⁰ Although drug abuse is not a major issue in Panama, this country plays a critical role as a drug transit country due to its proximity to Colombia. Drugs trafficking occurs mainly through Panama's coastlines, which are almost 3,000 km (1,864 miles) long, including its Pacific and Caribbean coasts.²¹ Specifically, around 30% of cocaine produced in Colombia transits Panama's coasts via multiple routes managed by a diverse set of criminal rings, including paramilitaries and guerrillas.²² The lack of roads and a dense strip of forest of the Darién Gap reduce opportunities for drug trafficking by land, but land routes are often combined with maritime transportation to traffic cocaine and marijuana from Colombia to Panama.

Between 2019 and 2021, cocaine seizures by Panama's authorities significantly increased from 91 metric tons to 128 metric tons.²³ In 2021, they represented more than 80% of all seizures by weight.²⁴ Huge volumes of containerized cargo transiting the Panama Canal make it difficult to detect drug trafficking. In 2021, Panama's Port Task Force seized almost 28 metric tons of illicit drugs.²⁵ Taking into account that Panama's authorities capture only a small fraction of all smuggled cocaine, an increase in drug seizures provides a proxy indicator of the growing drug volume crossing the isthmus. Among Panama's law enforcement agencies, the National Air and Naval Service made the largest contribution to these seizures in the amount of 38 metric tons of cocaine, which constituted 65% of all seizures from January to October of 2021.²⁶

Over recent years, cocaine routes used by Colombia's drug trafficking organizations have changed in a very significant way, decreasing Panama's role as their primary transit hub. Such changes are typical of drug rings who often reallocate trade routes to adapt their operations to new conditions and law enforcement threats. Currently, Colombian drug rings increasingly rely on Venezuela as a regional transit hub, trafficking cocaine by sea directly to Guatemala and by air to Honduras. At the same time, these changes might be temporary, and Panama might return to its status as Central America's primary transit hub for cocaine under new external threats.












Weak control over Belize's porous borders and underfunding of its customs and border protection agencies have contributed to a growing role of this country in heroin trafficking to the United States through Mexico and cocaine trafficking from Colombia, Venezuela, and Ecuador to North America via the Caribbean route. Due to limited or absent monitoring, Belize's islands provide a convenient location for go-fast vessels to move drugs and other illegal merchandise.²⁷ Cargo planes used for drug smuggling benefit from clandestine strips in Belize's areas with extremely low population density.²⁸ Belize's attempts to strengthen its border control have not yielded the desired results as its Coast Guard, Defense Force, and police often lack the required equipment, personnel, and financial resources, as well as suffer from corruption in the ranks. Recent budget cuts, including salary reductions for public servants, and the challenges posed by the COVID-19 pandemic have further complicated this situation. Moreover, Belize's judicial system is hindered by inefficient court proceedings, inadequate case management, limited

numbers of trained prosecutors and judges, and scarce resources.²⁹ Due to all these factors, the government is unable to allocate sufficient resources to address drug trafficking.

In terms of drug trade actors, even though the cocaine trade is predominantly controlled by foreign actors, Belizean gangs are reported to compete for control over cocaine transportation, which, in turn, leads to an increase in drug-related killings.³⁰ Recent seizures also point to a growing role of Belize in gang-controlled trafficking of precursors, primarily of Asian origin. Local residents are often employed to move precursors from Belize to Mexico for drug production destined for the United States and partially for Europe.

Despite its efforts to curb drug trade, Guatemala also remains a major drug transit country, with as much as 90% of cocaine coming to the United States through its borders.³¹ Among key factors contributing to this problem are limited law enforcement resources, widespread corruption, and Guatemala's central location close to the United States market. Guatemala is also the third-largest opium producer in Latin America, after Mexico and Colombia.³² Its growing heroin market is controlled primarily by Mexican cartels who partner with local criminal groups. Over recent years, Guatemala also remains one of the most critical hubs for clandestine amphetamine manufacturing at the regional level (Table 2). From 2013 to 2019, for example, 14 amphetamine laboratories were dismantled in this country.³³

Table 2: Amphetamine seizures reported in Latin America and the Caribbean (kg), 2016-2019

	COUNTRY	2016	2017	2018	2019
	Argentina	0.4	32.9	0.6	1.4
	Brazil	4.0	43.6		12.7
	Chile	0.3	0.04	0.2	0.04
	Dominican Republic		3.1		
	Ecuador		0.4	7.6	1.8
	El Salvador				0.1
	Guatemala		22.7	1.1	16,877.5
	Mexico	1.1	1.3	3.3	2.5
	Panama	0.2	0.02		
	Uruguay			27.6	
	Venezuela	0.01	4.8	15.9	0.8
	TOTAL	6.0	108.8	56.3	16,896.8

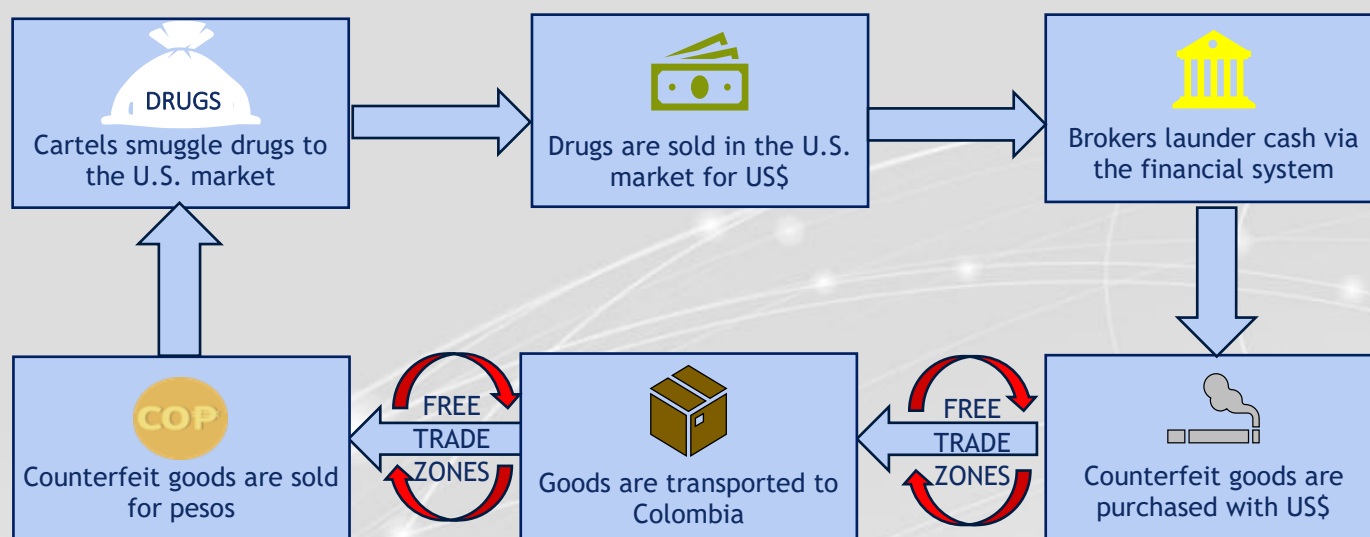
Source: UNODC (2021).³⁴

Despite all efforts to eliminate coca, cannabis, and opium poppy fields, illegal cultivation remains a serious problem in rural regions in Guatemala. Apart from weak government control, another driver behind this trend is the lack of economic opportunities in rural areas, which makes illegal cultivation the only viable source of income for local residents.³⁵ Over the last decade, the United States and Guatemala authorities have increased their coordinated efforts to eliminate the drug trade. In 2021, for example, the U.S. Bureau of International Narcotics and Law Enforcement Affairs documented a record for incinerated precursor chemicals in Guatemala and a record number of arrests of individuals with pending extradition requests in the United States.³⁶ At the same time, Guatemala's public agencies responsible for control over the import, export, and use of the over 750 registered entities handling precursors lack personnel and financial resources.³⁷ In addition, Guatemala's Ministry of Public Health lacks a central database to track and register precursor chemicals, which results in the inability of customs and law enforcement to verify if their shipments are legitimate.³⁸

Drug trafficking is a very lucrative business, and criminal organizations are constantly improving their modus operandi to increase their profits and avoid detection. Over the last decades, the routes and methods of these networks have evolved in response to new business opportunities and law enforcement risks. For example, trade-

based money laundering schemes known as a black-market peso exchange have become more complex and diversified through a wide variety of commodities, including electronics, counterfeit cigarettes, alcohol, precious metals, and e-gold. Originally, it was used by the Colombian cartels who smuggled and sold drugs in the United States and laundered the received cash through the financial system and purchases of other goods, including commodities in the Colón Free Zone and other FTZs in Central America.³⁹ In this scheme, the circulation of goods through FTZs helped smugglers to disguise their actual origin and alter their value through under- and over-invoicing (Figure 1).⁴⁰

Figure 1: The circulation of money and goods in a black-market peso exchange scheme



Source: Krylova (2023).⁴¹

Among the very first awareness-raising initiatives related to trade-based money laundering through the black-market peso exchange, the Financial Crimes Enforcement Network (FinCEN) issued its 1997 guidance for financial institutions on how to identify its red flags (Box 1). This scheme remains popular among criminal organizations. In 2021, for example, a black-market peso exchange broker was sentenced to prison in California for laundering more than US\$900,000 for Mexico-based drug trafficking organizations.⁴² In another case in 2022, a Florida-based electronics exporter pled guilty to laundering narcotics proceeds by transferring them overseas with the aid of shell companies and mirrored transactions.⁴³

Box 1: Red flags related to money laundering by black-market peso exchange brokers

According to the FinCEN advisory, financial institutions should be aware of the following red flags:

- ❖ Structured currency deposits to multiple individual checking accounts, with multiple daily deposits at various bank branches below the \$10,000 currency reporting threshold of the Bank Secrecy Act;
- ❖ Consumer checking accounts used for a limited period to avoid detection;
- ❖ Multiple accounts opened on the same day or held by the same foreign nationals at various banks;
- ❖ An increase in the frequency or amounts of currency deposits made by U.S. business account holders who export to Latin America;
- ❖ Suspicious transactions linked to common schemes.

Source: FinCEN (1997).⁴⁴

2.2. Arms trafficking

Central American countries serve as important hubs for arms trafficking in the Western Hemisphere. However, most illegal arms circulating in Central American countries are manufactured in the United States or other countries and are obtained through illegal markets and theft or diverted from legitimate commerce. According to the Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives, a significant share of all 27,000 firearms recovered from 2015 through 2019 in Belize, El Salvador, Guatemala, and Honduras were U.S.-sourced (17.5%) or traced to U.S. entities (22.6%) (Table 3).⁴⁵ Importantly, almost half of the U.S.-sourced firearms were

not smuggled from the United States but were diverted from legitimate commerce in these four Central American countries.⁴⁶






Table 3: Origin of firearms recovered from 2015 through 2019 in Belize, El Salvador, Guatemala, and Honduras

COUNTRY	BELIZE		EL SALVADOR		GUATEMALA		HONDURAS		TOTAL	
	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%
NON-U.S. MANUFACTURER	118	40.4	5,589	47.4	7,093	66.6	2,884	63.9	15,684	57.6
U.S.-SOURCED	67	22.9	2,608	22.1	1,768	16.6	318	7.0	4,761	17.5
TRACED TO U.S. ENTITIES	104	35.6	3,198	27.1	1,758	16.5	1,094	24.2	6,154	22.6
UNKNOWN ORIGIN	3	1.0	386	3.3	35	0.3	217	4.8	641	2.4
TOTAL	292	100.0	11,781	100.0	10,654	100.00	4,513	100.0	27,240	100.0

Source: U.S. GAO (2022).⁴⁷

Although a significant part of illegal arms transit through Panama, Belize, and Guatemala on their way from the United States to other countries, there is also significant local demand for illegal arms. The availability of illicit arms contributes to high homicide rates at the country and regional levels, including drug-related killings.⁴⁸ Illicit weapons are also used as an instrument for widespread extortion in Central America, especially by criminal gangs. Table 4 provides country-level data on the number of legal and illegal arms purchased by citizens in Central American countries.

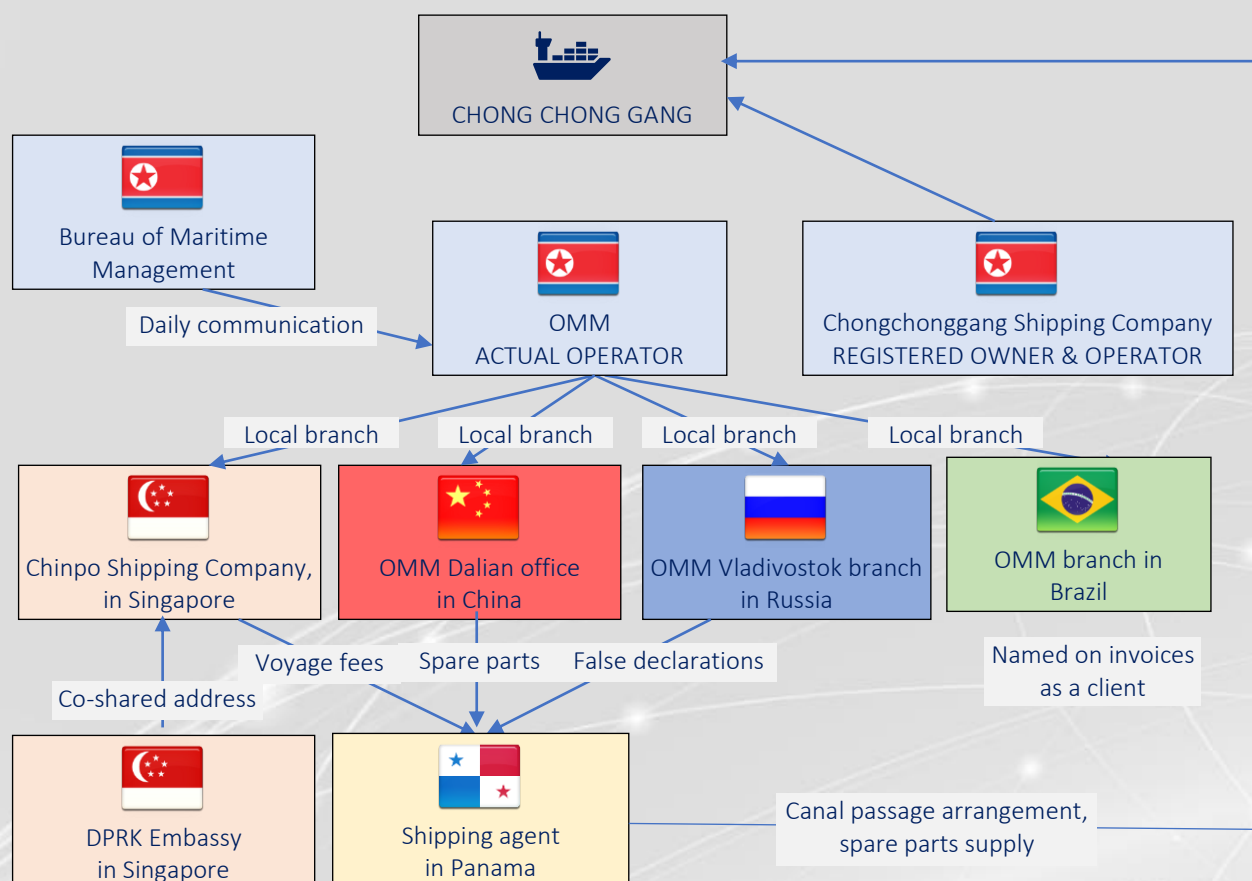
Table 4: Number of weapons purchased by civilians in Central America, 2017

COUNTRY	ARMS OWNED BY CITIZENS	LEGAL ARMS	ILLEGAL ARMS
 El Salvador	737,000	344,587	392,413
 Guatemala	2,062,000	570,792	1,541,208
 Honduras	1,171,000	475,000	696,000
 Panama	436,000	180,000	256,000
 Costa Rica	493,000	235,631	257,369
TOTAL	4,899,000	1,756,010	3,138,990

Source: GI-TOC (2021).⁴⁹

Panama's location and port facilities make it a convenient transit point for illicit weapons, primarily from the United States to South America, especially Colombia. The Panama Canal also plays an important role in the transshipment of arms to countries that are placed under international sanctions, such as North Korea, Venezuela, and Cuba. In 2013, for example, Panamanian customs officials detained a North Korea-owned and flagged cargo vessel, Chong Chon Gang, transiting the Panama Canal on its way back from Cuba.⁵⁰ Hidden under 10,000 tons of sugar (the only declared cargo), the customs officers found six trailers with surface-to-air missile systems and 25 shipping containers loaded with two disassembled MiG-21 aircraft, 15 engines for MiG-21 aircraft, components for surface-to-air missile systems, ammunition, and miscellaneous arms-related materials.⁵¹ While the Chongchongang Shipping Company, owned by the government of North Korea, was listed as the owner of the vessel, UN investigators found that its actual operator was Ocean Maritime Management Company, Ltd (OMM). This front company was linked to more than 34 entities in more than 11 countries, including Panama, Russia, and Brazil (Figure 2).⁵²

Figure 2: The interconnectedness of hubs in sanctions evasion



Source: Adapted from UN Security Council (2014).⁵³

Figure 2 shows the interconnectedness of various hubs in illicit trade and sanctions evasion operations. In the Chong Gang case, front companies located in Russia, Brazil, China, and other jurisdictions were used to obscure the connection of this transaction to North Korea. For example, entities in Vladivostok in Russia were used to submit false declarations; a company in Singapore was used to pay voyage fees; and Brazilian entities were named on invoices as a client and paid transit fees through the Panama Canal.⁵⁴

Like Panama, Belize serves as an important transit point for illicit weapons that are trafficked to other countries, including Mexico, Guatemala, and Honduras. Arms trafficking through Belize is facilitated by corruption at its borders and weak customs control. The ease with which illicit weapons cross Belize's borders results in wide access to guns among local gangs, which, in turn, contributes to an extremely high homicide rate in this country.⁵⁵ Guatemala's proximity to the United States and its location along the major arms-trafficking route from South America also make it a critical hub for arms trafficking. Other key factors contributing to the illicit circulation of arms include a significant number of unregistered arms left after Guatemala's civil war and weak customs control at major ports and border crossings. Like in Belize, a high concentration of illicit arms in Guatemala leads to increased violence, with more than 80% of homicides being committed with firearms.⁵⁶

2.3. Illicit cigarette trade and trafficking

Illicit cigarettes account for about 12% of all cigarette sales at the global level.⁵⁷ This figure is even higher in Central American markets, with extreme cases such as Panama where the share of illicit cigarettes increased from 60.8% to 87.9% of the entire tobacco market between 2016 and 2021.⁵⁸ This trend is explained by various factors, including corruption, weak customs control, ineffective law enforcement and judicial systems, growing financial flows from drug trafficking used for smuggling activities, and ineffective taxation policies. In the latter case, those policies that are aimed at reducing tobacco consumption through increased taxes might incentivize consumers to replace licit cigarettes with less expensive contraband or counterfeit tobacco products. To avoid such unintended consequences, these policies need to be coupled with measures aimed at building the capacity of public agencies to effectively eliminate contraband and counterfeit cigarettes.

The role of FTZs in the illicit cigarette trade is well documented. In Central America, FTZs in Panama and Belize were reported as critical transit points for illicit cigarettes.⁵⁹ The Colón Free Zone in Panama is characterized as

“the Disneyland of smuggling,” where one can find various illicit goods — “whisky, cigarettes, medicines — everything.”⁶⁰ Similarly, the Corozal Free Zone in Belize is one of the largest smuggling hubs in Central America. Importantly, on their way to the destination markets, illicit cigarettes often go through FTZs in various countries. For example, illicit cigarettes from FTZs in Panama and Belize often make a roundtrip to FTZs in the United States (Table 5) and then return to Panama or Belize. Such operations allow cigarette smugglers to alter the cargo value, as well as to change certificates of origin, a practice known as “origin laundering.”⁶¹

The Colón Free Zone is “the Disneyland of smuggling.”

Table 5: U.S. free zones on the contraband route

FREE ZONE	LOCATION, GRANTEE, & COMPANIES IN PROXIMITY
FTZ # 25	Seaport: Fort Everglades Grantee: Fort Everglades — Department of Broward County Close companies: Miami Warehouse Logistics; Heritage Tobacco; RJ World Trading
FTZ # 241	Seaport: Port Everglades Grantee: Fort Lauderdale — c/o Fort Lauderdale Executive Airport
FTZ # 281	Seaport: Port Miami Grantee: Miami - Dade County, Florida
FTZ # 12	Location: 640 S. 33Rd St., McAllen, TX 78501 Grantee: McAllen Economic Development Corp. Close company: Valley Bonded Warehouse

Source: Adapted from Rico (2022).⁶²

Based on the UN Comtrade, significant volumes of illicit cigarettes transit through Central America, primarily via Panama and Belize.⁶³ Remarkably, Panama and Belize’s total cigarette imports had opposite trends, with their average combined volume estimated at 6.6 billion sticks in 2018-2020, which points to close connections between these countries filling each other’s supply gaps resulting from country-level fluctuations (Figure 3).

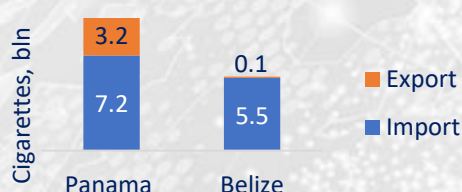
Figure 3: Panama and Belize’s cigarette imports, 2018-2020



Source: Authors’ calculations based on UN Comtrade (n.d.).⁶⁴

As indicated earlier, Panama’s FTZs are the main node of the illicit cigarette trade in Latin America. Cigarette shipments arrive there directly from Asian, South American, and other production economies, with transit points located in Caribbean free ports. After arriving in Panama, the cargo is forwarded to intermediary FTZs in other countries, including the United States, as well as other Central American FTZs. The cargo that arrives in Guatemalan ports is destined mostly for the local market, with a marginal amount re-exported to other countries. Conversely, in Belize, almost all illicit cigarettes are re-exported, with only a minimum quantity diverted to the local market. From intermediary free zones, containers with illicit cigarettes are shipped to other hubs located close to the main consumer markets (not necessarily coastal cities) from where the cargo goes further to urban wholesalers.

Figure 4: Panama and Belize’s cigarette import and export, 2021



Source: Rico (2022) based on Panjiva.⁶⁵

There are no exact estimates of illicit cigarette volumes. Yet, comparisons of export and import data point to existing discrepancies. In 2021, for example, gaps between the declared exported and imported cigarettes in Panama and Belize were estimated at 4 billion and 5.4 billion cigarettes, respectively (Figure 4). These numbers, however, represent an underestimation of their actual trade volumes. Domestic cigarette consumption in both countries is much lower than the identified gaps: about 1.1 billion sticks in Panama and 0.1 billion sticks in Belize.⁶⁶ These numbers suggest that the supply of cigarettes in

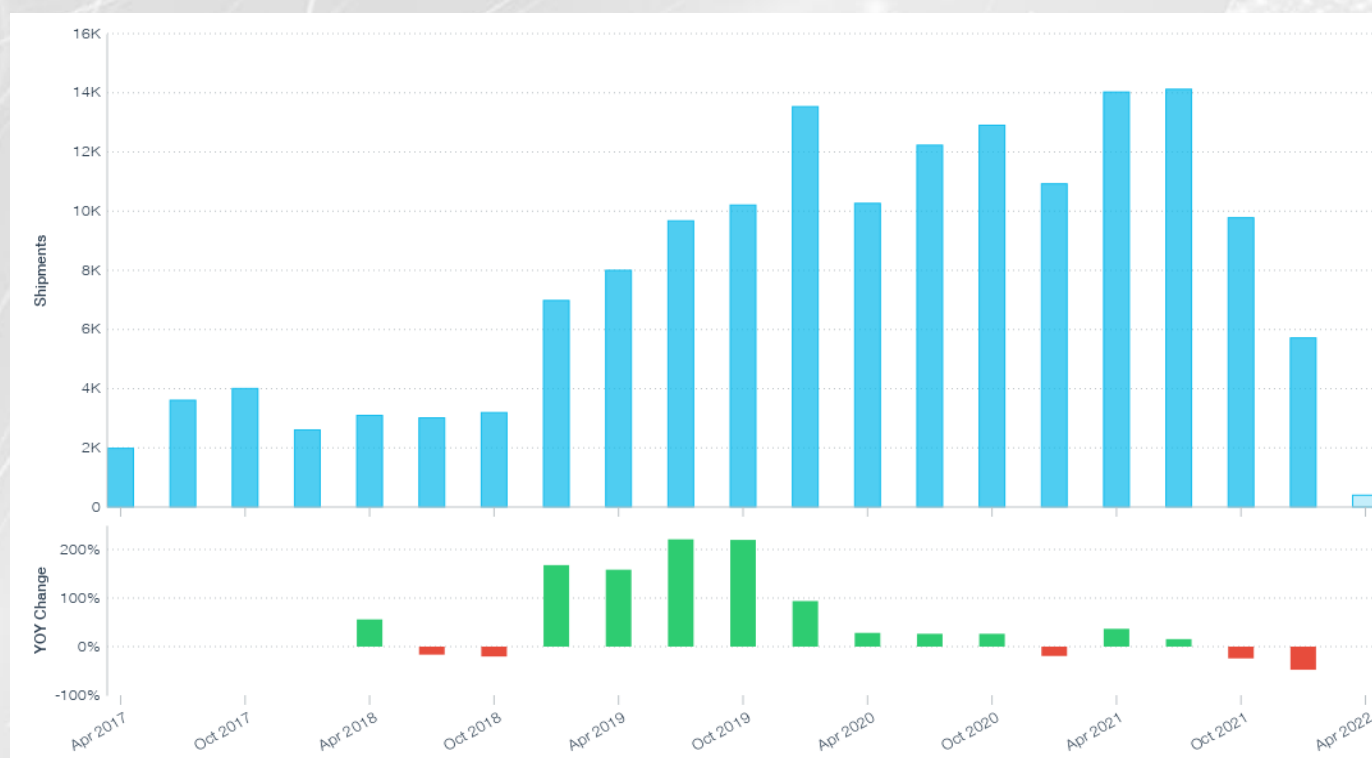
Panama and Belize exceeds the local demand by approximately 4 and 54 times, respectively, meaning that significant numbers of cigarettes arriving in FTZs in both countries are not declared. Criminal profits are also difficult to calculate. Yet, comparisons of value changes along the illicit cigarette supply chain provide a proxy estimate. The wholesale price of a cigarette pack is only US\$0.20 in the Colón Free Zone, while the price for final consumers varies between US\$0.60 and US\$1.10, depending on the country. This shows that smugglers can easily triple the original cigarette value through free zone transshipments.⁶⁷ After cross-referencing the cigarette consumption prevalence data by brand with the profit margin, conservative estimates of annual proceeds of illicit cigarette sales in Central America in 2021 ranged from US\$150 million to US\$250 million.

Importantly, a key problem related to illicit cigarette smuggling through primary and intermediary FTZs in Panama, Belize, and Guatemala is not only weak customs control, but also lax and lenient regulations allowing criminal organizations to abuse financial, commercial, and transport infrastructure of FTZs within the existing rules. FTZ owners in Central America are often reluctant to adopt stricter regulations because they benefit from illicit trade. Generally, they have strong political and influential status and close connections with powerful officials (e.g., current and former politicians, high-level customs officers, and members of Congress). Such levels of political influence, coupled with large resources, allow them to systematically block any attempt to change FTZ regulations, improve control, or enhance data exchange and information sharing between national and international agencies.

Due to these challenges, factories in FTZs involved in illicit cigarette production find alternative ways to continue their operations, even in the case of their closure. For example, according to released reports, in 2015, Panama's authorities canceled export permits of Overseas United Inc. (a partnership between China Tobacco subsidiary, Hunan China Tobacco Industrial Co., Ltd., and a Singaporean company). However, Overseas United Inc. continued its export operations through a network of shell companies.⁶⁸ One of these shell companies – Finta Inc., located in the Colón Free Zone, sold cigarettes to Victor M. Guerra Inc. Duty-Free Shop, a U.S.-based company whose owner was later convicted of attempting to smuggle cigarettes into Mexico.⁶⁹

An analysis of recent data on transit logs with container movements between FTZs allows for mapping the dynamics and the volume of illicit cigarette trade. Figure 5 displays the transit patterns related to illicit cigarette movements across Latin America, beginning with their entry point in Panama.

Figure 5: Total regional shipments of tobacco products and annual variations, 2017-2022



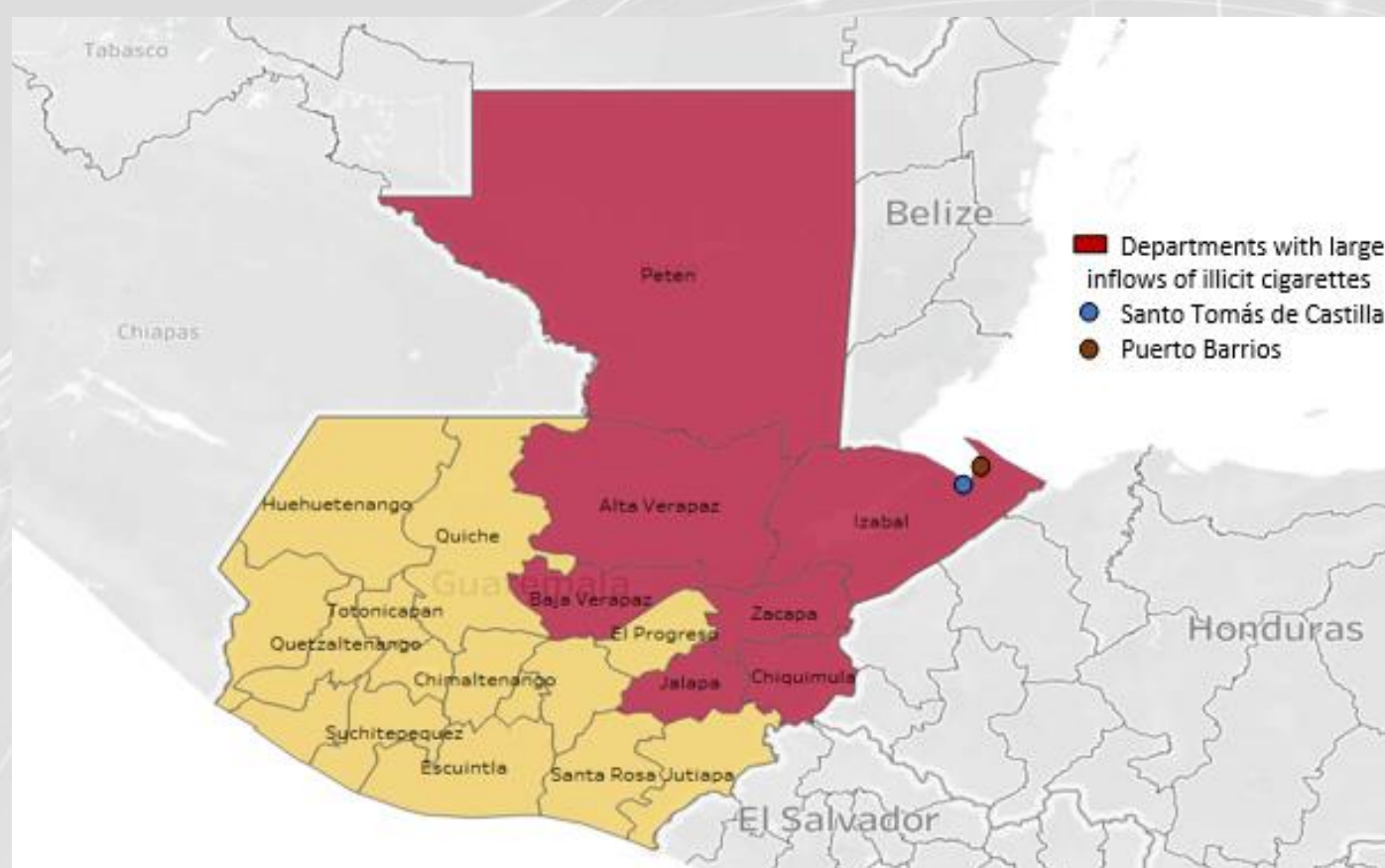
Source: Rico (2022) based on Panjiva.⁷⁰

This analysis allows for the identification of several trends. First, there was a significant reduction in the number of containers declared as cigarettes between 2021 and 2022.⁷¹ This is a red flag since cigarette demand tends to be stable, and, therefore, this reduction is most likely related to false declarations using other goods to reduce the profiling risk. In some recent cases, for example, false declarations used crayons as their weight is similar to that

of cigarette shipments. Second, U.S. ports and FTZs have been increasingly receiving and forwarding containers from Panama to other Latin American countries, including Venezuela and Cuba, both of which are currently under national and international sanctions. Third, FTZs in Trinidad and Tobago are major receivers of contraband cigarettes from Panama. Even though Trinidad and Tobago's cigarette import is 70 times greater than domestic consumption, its cigarette export is extremely low. This finding points to the necessity to further investigate this country as a critical intermediary hub for illicit cigarette supply chains. Fourth, there has been an increase in the share of Korean brands smuggled at the regional level in Central America (see Section 3.5 on extra-regional actors).

Both Panama and Belize have very small internal cigarette markets. Consequently, in terms of illicit cigarette transshipments, FTZs in these two countries have greater relevance to other markets. In comparison, Guatemala is the largest market for illicit tobacco products in Central America and the Caribbean. Cigarettes manufactured in China, India, the UAE, and Paraguay were found in shipments from Panama and Belize's FTZs destined for local markets in Guatemala.⁷² According to a study carried out by Guatemala's Commission for the Defense of Formal Commerce (CODECOF), more than 23 brands of cigarettes are smuggled into the country, with 76% of them entering the national territory through its northeastern administrative departments (Figure 6).⁷³

Figure 6: Guatemala's administrative departments with large inflows of illicit cigarettes



Source: Authors' elaboration based on the CODECOF data and recent cases.⁷⁴

As shown in Figure 6, Guatemala's Departments of Petén and Izabal bordering Belize serve as major transit points for cigarette smuggling, including by sea to Puerto Barrios and Santo Tomás de Castilla. Puerto Barrios is Guatemala's main Caribbean Sea port located within the Gulf of Honduras. Santo Tomás de Castilla is a FTZ and a port city representing an administrative part of Puerto Barrios. From Puerto Barrios, cigarettes are further transported by minivans and trucks across the country and to neighboring states. In 2017, for example, Guatemalan authorities dismantled a cigarette smuggling ring linked to the Corozal Free Zone. Members of this ring used this zone as a transit point for at least 39 cigarette shipments by sea (each containing 500 boxes with 5 million cigarettes) moved to Puerto Barrios in Guatemala and then to Honduras, El Salvador, and other neighboring countries.⁷⁵ Guatemala's law enforcement and navy officers were active members of this ring.⁷⁶ In a more recent case, 22.3 million smuggled cigarettes were found in a truck and a trailer transiting the Petén and Izabal Departments.⁷⁷ Between 2019 and 2020 alone, Guatemala's authorities seized tobacco products worth up to GTQ 12,682 million (equivalent to US\$1,611 million).⁷⁸ Yet, these seizures represent only the tip of the iceberg.

Duty-free shops serve as an important source of smuggled cigarettes. In Guatemala, for example, duty-free shops at La Aurora International Airport were involved in a large corruption scandal that disposed the collusion between criminals and government officials, known as the *La Riviera* case (Box 2). These types of companies operating in Latin America are, for the most part, huge transnational corporations with great economic and political power. This is why when the U.S. Department of the Treasury included the members of the Waked family involved in the *La Riviera* case and similar cases in its specially designated person list, the national authorities in every country where they had duty-free stores were alerted.

Box 2: The *La Riviera* tax evasion case involving duty-free stores with unlawfully acquired tax exemption status at La Aurora International Airport in Guatemala

In 2015, the Office of the Prosecutor against Administrative Crimes of the Public Ministry of Guatemala closed ten duty-free stores of the chain known as *La Riviera* at La Aurora International Airport for alleged customs fraud. These shops were part of Grupo Wisa, SA, a Panamanian company that operated in more than 14 countries across Latin America. According to 2014 data, apart from 133 entities in the largest cities in Latin America, this Panamanian company had 104 duty-free stores located at airports, border checkpoints, and ports. These duty-free stores were selling tobacco products, perfumes, cosmetics, watches, chocolate, and alcohol, among other things.

The *La Riviera* case came to light after a nongovernment organization filed a complaint in 2011 against Tiendas Libres de Guatemala, which managed *La Riviera* duty-free stores at La Aurora International Airport. Guatemalan investigators found that Grupo Wisa, SA and Tiendas Libres de Guatemala were authorized by the Superintendency of Tax Administration to operate a private customs warehouse at La Aurora International Airport as duty-free stores, exempt from paying taxes. This was done in violation of Guatemala's laws according to which only Congress has the power to grant this type of tax exemption.

According to the Prosecutor's Office, Grupo Wisa, SA and Tiendas Libres de Guatemala defrauded the State of Guatemala of GTQ 59 million (equivalent to US\$7.5 million), using their unlawfully acquired tax exemption status. According to another source, the total budget losses due to their illegal operations could have reached GTQ 198 million (US\$25.2 million). In 2015, Guatemala's authorities detained the former head of the Superintendency of Tax Administration, Rudy Villeda Vanegas, who unlawfully authorized these duty-free stores at La Aurora International Airport. In addition, several officials of the Superintendency of Tax Administration were charged with customs fraud, breach of duties, violation of the Constitution, and usurpation of powers.

In 2016, the U.S. Treasury Department designated the Waked Group, a Colon Free Zone-based company, its leaders, and affiliated entities for laundering proceeds of the drug trade through duty-free retail, real estate, and financial operations. Grupo Wisa S.A. and La Riviera Panama SA were among the designated entities linked to the Waked Group. As a result, some of the Waked Group entities were sold to third parties who took over their operations. However, in 2021, the U.S. Treasury removed its designation of four of these affiliated entities. One of them – La Riviera Panama SA continues its operations in duty-free retail in Nicaragua, Colombia, Bolivia, Uruguay, Panama, Guatemala, Belize, Costa Rica, El Salvador, Honduras, and Mexico despite high tax evasion risks.

Sources: Álvarez & Patzán (2016, October 13); “Caso ‘La Riviera’” (2015, July 31); Fernandez (2015); U.S. Treasury (2016 May 5; 2021, September 30); Krylova (2023), interviews with subject matter experts.⁷⁹

A recent investigation into duty-free stores at the U.S. southwest border with Mexico conducted by the Government Accountability Office (GAO) provides more detailed information about schemes used for illicit trade in cigarettes and money laundering.⁸⁰ Specifically, the GAO identified three major schemes: (i) diversion from duty-free stores into general commerce; (ii) smuggling into Mexico via U.S. ports; and (iii) smuggling in the opposite direction into the United States after export to Mexico.⁸¹ The GAO linked cigarette smuggling to transnational criminal organizations that laundered money through the illicit cigarette business.⁸² Apart from domestically produced goods, the smuggled cigarettes also originated from FTZs. In 2021, for example, Guatemala's authorities destroyed more than 45 million contraband cigarettes seized by customs at the Santo Tomás de Castilla Free Zone in the Izabal Department.⁸³ According to a 2021 CODECOF study, Guatemala's consumption of illicit cigarettes totals 40% of the market and is associated with tax evasion and other illicit activities, such as organized crime and drug trafficking.⁸⁴

The collusion between cigarette smugglers and law enforcement in Central American countries is also well documented. For example, the investigation that led to the dismantling of one of the largest smuggling networks known as *Los Cigarreros* (literally, “the tobacconists” in Spanish) provided evidence that their operations were supported by officials from the Superintendency of Tax Administration and officers from the National Civil Police in Guatemala.⁸⁵ An investigation initiated by the Economic Crimes Prosecutor of the Public Ministry showed that

members of *Los Cigarreros* bought cigarettes and liquor at FTZs in Panama and then transported these products first to Belize and then to Guatemala.⁸⁶ In this case, officials of the Superintendency of Tax Administration and officers at the Melchor de Mencos customs office of the Department of Petén provided guard services for illicit cigarette shipments to Guatemala's capital and other cities and even further to Honduras.⁸⁷ In another case, illicit cigarettes were found in a military truck labeled as belonging to the Guatemalan Army that was abandoned in the Department of Zacapa.⁸⁸ The involvement of public officials in smuggling was also confirmed in an interview with a subject matter expert:

What is important about tax evasion and smuggling cases, such as the *La Riviera* case in Guatemala, is that they are not only about illicit business and organized crime. They also show the role of governments in Central America that have deep connections and relationships with criminal organizations and smugglers. In the *La Riviera* Case, for example, one of the witnesses provided evidence of Panama's senior officials' involvement in this tax evasion enterprise. These officials put a lot of pressure on Guatemala's tax administration to force them to unlawfully authorize tax exemption status for *La Riviera* duty-free stores at La Aurora International Airport.

The *La Riviera* case is no exception. In 2015, the International Commission against Impunity in Guatemala (CICIG), which operated from 2006 till its closure in 2019, investigated another corruption ring comprised of high-ranking officials in the customs and tax authorities, as well as the administration of Guatemala's former president. The investigation was dubbed the *La Línea* case because public officials from this customs corruption ring used a telephone number they called *la línea* ("the line" in Spanish) to bribe businesses in exchange for reduced import tariffs. The ring operated primarily at the entry customs at Puerto Quetzal and the FTZ and the city of Puerto Santo Tomás de Castilla.⁸⁹ This case led to the arrest of former President Pérez Molina and former Vice President Roxana Baldetti. In February 2017, the United States also requested the extradition of Roxana Baldetti on charges of drug trafficking while she and Pérez Molina were in custody in Guatemala on charges of corruption. In 2016, Guatemala's Attorney General Thelma Aldana also brought corruption charges against five former ministers who served in the Pérez administration. In 2022, Guatemala's court sentenced Pérez Molina and Baldetti to 16 years in prison each for their part in the tax fraud scheme and fined them over US\$1 million.⁹⁰ This decision was a small victory for anti-corruption activists.

3. KEY ILLICIT TRADE ACTORS

Key beneficiaries of illicit trades in Central American hubs include political elites and affiliated businessmen, corrupt officials, customs officers, law enforcement, organized crime groups, gangs, and various armed groups. In terms of supportive networks, illicit actors rely on a wide range of legally registered entities, including free zone manufacturers, suppliers, distributors, transport, postal, logistics, financial, and accounting companies. This section provides examples demonstrating the role of these actors in illicit trade operations.

3.1. Political elites

In Panama, corruption allegations against high-profile politicians, including two former presidents, Ricardo Martinelli and Juan Carlos Varela, and three former ministers, Demetrio “Jimmy” Papadimitriu, Frank De Lima, and Jaime Ford, point to the political elite’s engagement in illicit activities.⁹¹ Similarly, there have been multiple corruption allegations against Belize’s public officials, including ministers, deputy ministers, and chief executive officers.⁹² In Guatemala, recent corruption investigations also provide strong evidence of the influence of illicit groups and criminal organizations over the government and their links to the political elites. For example, in 2021, the U.S. Department of the Treasury sanctioned Gustavo Adolfo Alejos Cambara, the former Chief of Staff for the Álvaro Colom Presidential Administration, and Felipe Alejos Lorenzana, an elected delegate to the Congress of the Republic of Guatemala.⁹³ In 2019, Alejos Cambara was accused of receiving bribes as part of a corruption network involving public construction contracts and money laundering through purchases of offshore assets in Panama and Belize.⁹⁴ To secure their protection from prosecution, both of them allegedly facilitated payments to congressional representatives and judges to influence Guatemala’s Supreme Court of Justice and Court of Appeal elections.⁹⁵

3.2. Local organized crime groups and transnational criminal organizations

Since Panama, Belize, and Guatemala are predominantly transit countries for drugs, most local criminal organizations and gangs collaborate with larger Mexican drug trafficking organizations (such as the Sinaloa Cartel, the Gulf Cartel, and Los Zetas), and their Colombian counterparts (e.g., the BACRIM). Due to its proximity to Colombia, Panama has a particularly heavy presence of Colombian criminal organizations and paramilitary groups involved in extortion, gold smuggling, contraband, human trafficking, and migrant smuggling, among other things.⁹⁶

In Guatemala, drug trafficking is concentrated in the Zacapa, Alta Verapaz, and Petén border regions, with various groups known as *transportistas* (“transporters”) trafficking drugs mostly to North America. Historically, the Mendoza, Lorenzana, Ortiz López, and León families (who have strong connections with Guatemala’s political circles and security forces) have played a prominent role in drug trafficking.⁹⁷ The current criminal landscape in Guatemala is getting more diverse, with various smaller groups and local and international gangs actively involved in illegal activities, together with Mexican drug trafficking organizations. For example, in 2022, the U.S. Treasury designated *Los Huistas*, Guatemala’s drug trafficking organization, and its leaders accused of the illicit drug trade in cooperation with Mexico’s Sinaloa and Jalisco cartels.⁹⁸ They were engaged in various types of drug-related activities: (i) smuggling cocaine, methamphetamine, and heroin from northern Guatemala to the United States; (ii) producing heroin and methamphetamine, frequently laced with fentanyl; (iii) controlling poppy cultivation fields in the mountainous region spanning the Guatemalan departments of Huehuetenango and San Marcos; and (iv) importing precursor chemicals from China to manufacture methamphetamine.⁹⁹ As the U.S. Treasury states, “Criminal groups such as the *Los Huistas* DTO [drug trafficking organization] contribute to instability in Guatemala and the region,” posing additional threats to regional security.¹⁰⁰

“Criminal groups such as the *Los Huistas* DTO [drug trafficking organization] contribute to instability in Guatemala and the region.”

3.3. Terrorist organizations and armed groups

Terrorist organizations have long been documented to benefit from the drug trade and money laundering in Central America. A 2010 FATF report on trade-based money laundering documented a black-market peso exchange case where the proceeds of cocaine sales by a Colombian drug network were sent to bank accounts linked to Hezbollah in Lebanon.¹⁰¹ This network used accounts of several companies located within Panama’s Colón Free Zone as central delivery points for bulk cash. The detection of suspicious transactions and shipments was difficult because import and export records were maintained only on paper, and there was a lack of coordination between the Colón Free Zone administration and customs information technology (IT) systems.¹⁰²

Historically, the 57th Front of the Revolutionary Armed Forces of Colombia (FARC), which is currently largely demobilized, was a key actor controlling the trafficking and smuggling of commodities and people through the Darién Gap on the border of Panama and Colombia. Nowadays, the Darién Gap is largely controlled by the

Urabeños known as the Gulf Clan or the Gaitanis Self-Defense Forces of Colombia (*Autodefensas Gaitanistas de Colombia*, AGC).¹⁰³ Originating from Colombia's paramilitary movement in the region of Urabá located on the Panamanian border, the Gulf Clan controls much of the cross-border criminal economies, including maritime drug trafficking.¹⁰⁴

In Guatemala, the 36-year civil war (1960-1996) left the country with easy access to arms and a large military and intelligence apparatus. During the war, Guatemala's military and state security forces largely controlled the smuggling of illicit goods and arms trafficking in the region.¹⁰⁵ After the war, many members of the military and security forces joined organized crime groups and formed an illicit network collectively known as the Illegal Corps and Clandestine Security Apparatus (*Cuerpos Ilegales y Aparatos Clandestinos de Seguridad*, CIACS). They remain powerful actors in Guatemala's criminal landscape.

3.4. International and local gangs

Central America is home to a large number of local and international gangs (known as *maras*). They are responsible for widespread violence and criminality at the country and regional levels. In Guatemala, for example, MS-13 (*Mara Salvatrucha*) and the 18th Street gang (*Barrio 18*) are involved in the drug trade, arms trafficking, contraband, human trafficking, and migrant smuggling, among other criminal activities. Founded in the 1980s in Los Angeles, California, MS-13 has expanded its presence and influence throughout the Western Hemisphere. The U.S. Department of Treasury defines it as one of the "most dangerous and rapidly expanding criminal gangs worldwide," which "poses a direct threat to communities across the United States and throughout Central America."¹⁰⁶ The MS-13 structure consists of loosely connected cells (*cliques*) that control certain territories and do not have any universally recognized leadership. Their longstanding rival – the 18th Street gang – was also originally founded as a local street gang in Los Angeles, but after the 1990s massive deportation of its members from the United States, it has spread all across Central America and Mexico. Currently, this gang is strongly allied with Mexican drug cartels and criminal organizations.

"MS-13 ranks among the most dangerous and rapidly expanding criminal gangs worldwide, and poses a direct threat to communities across the United States and throughout Central America."

In Belize City, there are over 40 street gangs, with an estimated number of members ranging between 900 and 1,400 people.¹⁰⁷ The three largest gangs, the Peace in the Valley Bloods, the South Side, and the Gaza New Generation Blood/George Street gangs, are mostly involved in the drug trade, while MS-13, which is also present in Belize, is engaged in arms smuggling and cocaine and chemical-precursor trafficking.¹⁰⁸ In Panama, the Bagdad gang and its rival *Calor* are the key gang federations, consisting of 30-40 smaller gangs.¹⁰⁹ The Bagdad gang controls most drug trade in Panama, while *Calor* specializes in transporting drugs mostly for Colombian and Mexican criminal organizations.¹¹⁰ Both gangs are active in the Colón Free Zone, Panama's key illicit trade hub.

3.5. Extra-regional actors

Multiple foreign actors are participating in illicit trades carried out in Central America. For example, apart from transshipments of foreign cigarettes, Panama's FTZs also attract global tobacco manufacturers, such as China National Tobacco Corporation (known as China Tobacco), which focuses on the expansion of its factories, distribution centers, and overseas operations in Latin America (Table 6).

Table 6: Select China's tobacco-related operations in Latin America

LOCATION		COMPANY	YEAR	MARKETS
	Argentina	Hongta Tabaco Latinoamericana S.A. & China Tobacco Argentina Ltd	2008 2009	Latin America & the Caribbean
	Mexico	United Castle America SA de CV	2009	The Americas
	Panama	Overseas United Inc.	2012	Latin America
	Brazil	China-Brasil Tabacos Exportadora	2012	Latin America
	Brazil	China Tabaco Internacional do Brasil	2002	Leaf procurement

Source: Fang et al. (2017).¹¹¹

Panama-based operations by China Tobacco represent an important component of their global supply chain, providing a significant share of illicit cigarettes consumed in Latin America.¹¹² In 2021, an investigative series published by the Organized Crime and Corruption Reporting Project revealed multiple illicit and semi-illicit practices related to the operations of this state-owned company in foreign markets, including sales of China Tobacco brands in Central American countries where they were not legalized.¹¹³

Furthermore, the share of South Korea's illicit cigarettes is the fastest growing in Central America. South Korea's Kortabaco Group (KT&G) has established a strong presence in this region, even though its brands are not legal there. Figure 7 presents its complicated corporate structure that involves multiple companies.

Figure 7: KT&G corporate structure to introduce tobacco in Latin America



Source: Authors based on Panjiva data.

Apart from Asian extra-regional actors, Russian business groups operating in the Central American region are also associated with illicit activities. Their presence is historically strong in Nicaragua,¹¹⁴ however, interviews with subject matter experts also point to their controversial activities in Guatemala's ports and mining.

3.6. Corrupt officials, law enforcement, and customs

A high level of corruption in Central America is an important enabling factor 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 tax evasion by moving money outside the country."¹¹⁵ Specifically, there were reports of private-sector actors paying bribes to DIPAFRONT officers to obstruct investigations into their operations.¹¹⁶

There is evidence of the involvement of Panamanian public officials, the police, customs officers, and port authorities in illicit activities. In 2021, for example, as part of Operation Fisher to dismantle criminal networks linked to the Urabeños and other criminal groups, 56 people were arrested in Panama, including five police officers, two Panama Canal Authority functionaries, one municipal employee, and one official from the Education Ministry.¹¹⁷ Another investigation focusing on drug trafficking to Europe and Africa through the port of Colón by the drug trafficking group *Humildad y Pureza* revealed its strong connections with Panamanian public officials and security forces.¹¹⁸ Specifically, Colón port officers were accused of aiding this drug trafficking group to conceal cocaine in containers and ships. Belize is also characterized by a high level of corruption (Box 3).

Box 3: Corruption in Belize's Immigration Department

In 2021, the United States indicted Jianxing Chen, a Chinese national with a Belizean passport, who was charged with money laundering of at least \$30 million in drug proceeds on behalf of foreign drug trafficking organizations. His name also appeared in the Auditor General's Special Audit Report that found widespread corruption in the Immigration and Nationality

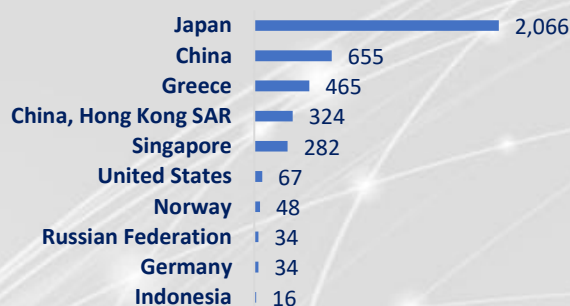
Department in Belize. In the Auditor General's report, Jianxing Chen was named among those individuals who received passports even though they were not qualified. The Auditor General identified multiple inconsistencies in the processing and issuance of documents. Many Belizean visas and passports were approved for Chinese, Korean, Colombian, and Iranian nationals who obtained visas without any security clearance. The system was so corrupt that even Cubans in prisons got visas to remain in Belize instead of being deported. Over 55,000 passports were approved without biometric checks and at least one passport was obtained by an alleged human trafficker. Several ministers were identified among those officials who approved visas to unqualified individuals.

Source: U.S. Department of Justice (2021); Auditor General's Special Audit Report on Passport and Immigration (2016).¹¹⁹

3.7. Logistics and shipping companies

Panama, a small country in Central America, has the largest shipping fleet in the world, exceeding the fleets of the United States and China combined.¹²⁰ At the same time, Panama itself has only one shipping line and several companies providing supplementary maritime services, while most vessels registered in Panama are owned by foreign actors.

Figure 8: The top jurisdictions of fleet ownership registered in Panama (vessel number), 2021



Source: UNCTAD (2021).¹²¹

Panama has the largest merchant fleet registry in the world (measured as 344 million deadweight tonnages, dwt), followed by Liberia (300 million dwt) and the Marshall Islands (274 million dwt).¹²² As of 2021, 16% of the global fleet carrying capacity was registered in Panama.¹²³ In terms of fees and taxes, this registry represents a significant revenue source for the Panamanian economy. Among the top five jurisdictions with the largest number of vessels registered in Panama are Japan, China, Greece, Hong Kong, and Singapore (Figure 8).

As a ship registration location, Panama remains attractive to shipowners because it offers less expensive services and has more flexible regulations compared to traditional national registries. Together with weak enforcement, lower inspection standards are associated with higher risks related to the environment and safety.¹²⁴ Panama and other offshore vessel registration jurisdictions provide multiple opportunities for criminals to disguise their identities, complicating the identification of suspicious activities, illicit trade operations, and sanctions evasion (Box 4).

Box 4: Sanctions evasion by Panamanian-flagged vessels

In 2019, the U.S. Treasury designated three Panama-based companies, Trocana World Inc., Tovase Development Corp, and Bluelane Overseas SA, for their involvement in sanctions evasion. Investigators found that the oil tankers owned by these companies, Sandino (IMO 9441178), Petion (IMO 9295098), and Giralt (IMO 9259692), were involved in Venezuela's oil smuggling to Cuba. The operating company of these vessels, Caroil Transport Marine Ltd., was based in Cyprus.



North Korea was also reported to use Panama-flagged vessels for sanctions evasion, together with various prohibited shipping practices, such as falsified information displayed on vessels and ship-to-ship transfers. For example, the image to the left taken on December 9, 2017, depicts attempts by the U.S.-designated North Korean vessel KUM UN SAN 3 to conduct a ship-to-ship transfer, possibly of petroleum products, with the Panama-flagged tanker KOTI. Such transfers are prohibited by United Nations Security Council Resolution 2375 of September 11, 2017.

Image credit: U.S. Treasury (2018). Sources: U.S. Treasury (2019); U.S. Treasury (2018).¹²⁵

3.8. Aviation trust companies

A recent criminal case shows how criminal networks and smugglers from Central and South America use companies registered in the United States to facilitate illicit trade and drug trafficking. In 2021, the U.S. Government indicted

Aircraft Guaranty Corporation (AGC), a Texas aviation trust company, and Wright Brothers Aircraft Title Inc., an Oklahoma corporation serving as an escrow agent in aircraft transactions. The owner of these two companies and one of her employees registered thousands of aircraft in Onalaska, an East Texas town that does not even have an airport.¹²⁶ The defendants used their status as United States citizens to register aircraft on behalf of drug traffickers and prohibited foreign nationals. Specifically, criminal actors were interested in getting a coveted N tail number for their aircraft because foreign countries are less likely to inspect or force down aircraft registered in the United States.¹²⁷

According to the indictment, several of the illegally registered aircraft were used by transnational criminal organizations in Panama, Guatemala, Belize, Colombia, Venezuela, Ecuador, Honduras, and Mexico to smuggle cocaine to the United States. In 2020, for example, aircraft N305AG with approximately 1,700 kilograms of cocaine was seized in Guatemala, and another aircraft N311BD with about 2,310 kilograms of cocaine was seized in Belize.¹²⁸ After these incidents, the defendants deregistered or otherwise transferred ownership of these aircraft. Aircraft purchases were typically completed by wiring funds from *casa de cambios* or banks located in Mexico to shell corporations operating in the United States as aircraft sellers and brokers, including South Aviation, TEXTON, TWA International, and Ford Electric.¹²⁹ To launder illegally obtained funds, these companies participated in a series of bogus aircraft sales transactions.

3.9. Financial and non-financial enablers

In 2016, a leak of more than 11.5 million financial and legal records of the Panama-based law firm Mossack Fonseca (known as the Panama Papers) 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. In Panama, Belize, and Guatemala, services provided by lawyers, accountants, bankers, real estate agents, and other financial and non-financial actors are used by criminal actors to launder money on a large scale. The 2022 Financial Secrecy Index (FSI) published by the Tax Justice Network ranked Panama 18th in the world on the level of financial secrecy (Table 7). This index is calculated by combining a country's secrecy score and its global scale weight. The first indicator measures the scope of financial secrecy within financial and legal systems (with zero meaning no scope and 100 meaning an unrestrained scope), while the second indicator measures a percentage of financial services provided by the jurisdiction to non-residents.¹³⁰

Table 7: Financial Secrecy Index, 2022

COUNTRY	RANK	FSI VALUE	SECRECY SCORE	FSI SHARE
 Panama	18/140	474	72.73	1.40
 Guatemala	45/140	265	74.75	0.78
 Belize	115/140	76	75.10	0.22

Source: Tax Justice Network (2022).¹³¹

three countries pose inherently high money-laundering risks.

Although Guatemala and Belize ranked lower on the FSI value, their secrecy scores are higher compared to Panama, meaning that their laws and regulations allow for a larger scope of financial secrecy (Table 7). At the same time, Guatemala and Belize's shares of global financial services provided to non-residents are much lower than in Panama.¹³² Overall, all

4. THE ENABLING ENVIRONMENT FOR ILLICIT TRADES IN PANAMA, BELIZE, AND GUATEMALA

Key enabling factors facilitating illicit trade in the Central American region include Panama's exclusive maritime connectivity in Latin America and the Caribbean; Belize and Guatemala's proximity to markets in North America; political and administrative corruption; and huge volumes of container freight; as well as relatively high levels of poverty and economic inequality among local populations.

4.1. Geostrategic locations

Panama's unique geographical position in Latin America and the Caribbean and its exceptional connectivity make it the primary trade hub in this region. The Panama Canal is one of the world's most important maritime trade routes

“Panama has the best air and maritime connectivity in Latin America and the Caribbean, with ports on the coasts of two oceans, a transcontinental railway, airports, logistics parks special economic zones and free zones.”

connecting the Pacific and Atlantic oceans. In the words of Panama's President Laurentino Cortizo Cohen, “Panama has the best air and maritime connectivity in Latin America and the Caribbean, with ports on the coasts of two oceans, a transcontinental railway, airports, logistics parks, special economic zones, and free zones.”¹³³ This strategic location allows the country to play a key role in both licit and illicit trades at the regional level. Its special economic zones located along the Panama Canal further facilitate its critical role as a regional logistics hub.

Belize and Guatemala's locations are also attractive to both licit and illicit traders due to their proximity to North American markets. In Guatemala, mountains with narrow coastal plains combined with jungle stretches in the north provide multiple opportunities for smuggling.¹³⁴ Guatemala has 400 km (249 miles) of coastline, mostly located on the Pacific Ocean.¹³⁵ Belize borders the Caribbean Sea to the east, with 386 km (240 miles) of coastline.¹³⁶ Such coastlines are particularly convenient for the movement of contraband commodities by sea.

4.2. Political factors

Panama is a democracy, with competitive elections, protected political rights, and civil liberties (Table 8). Yet, the country faces the problem of corruption and impunity at the highest governmental and judicial levels. Political and administrative corruption is associated with Panama's high risks of money laundering and increased criminality.

Table 8: Freedom indicators in Panama, Belize, and Guatemala, 2022

INDICATORS	PANAMA	BELIZE	GUATEMALA
Political rights	35 of 40 points	34 of 40 points	21 of 40 points
Civil liberties	48 of 60 points	53 of 60 points	30 of 60 points
Electoral process	4 of 4 points	4 of 4 points	2 of 4 points
Safeguards against corruption	2 of 4 points	2 of 4 points	1 of 4 points
Free media	3 of 4 points	4 of 4 points	2 of 4 points
Independent judiciary	2 of 4 points	2 of 4 points	1 of 4 points
FREEDOM STATUS	FREE	FREE	PARTLY FREE

Source: Freedom House (2022).¹³⁷

Like in Panama, Belize's regime and institutions are democratic, with competitive elections, political rights, and civil liberties. Yet, Belize also faces the problem of political and administrative corruption associated with relatively high levels of violence and criminality at the country level. Similarly, despite Guatemala's regular elections, its government system is, to a large extent, captured by organized crime, and is very corrupt. These factors are responsible for widespread violence and attacks against Guatemalan independent judges and officials tackling corruption cases, journalists, human rights defenders, and activists.

4.3. Corruption

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 anti-corruption mechanisms and insufficient resources. As indicated earlier, many Panamanian high-ranking officials were involved in corruption scandals. For example, Panama's former President Ricardo Martinelli, his two sons, and senior officials from his administration were linked to the Odebrecht case, one of the largest corruption cases in the region.¹³⁸ It centered around a Brazilian construction firm, Odebrecht, that paid approximately US\$788 million in bribes to government officials in 12 countries, mostly in Latin America.¹³⁹ In 2017, Panama created the Special Anti-Corruption Prosecutor's Office to prosecute corrupt officials in the Odebrecht case.¹⁴⁰ In 2019, however, Panama's anticorruption efforts significantly slowed when the National Assembly rejected the constitutional reform proposal that would have allowed the Attorney General to investigate Supreme Court judges and legislators suspected of corruption.¹⁴¹ The lack of anticorruption reforms hurt Panama's Corruption Perception Index (Figure 9a).

Figure 9: Panama and Guatemala's Corruption Perception Index, 2012-2021



Source: Transparency International (n.d.).¹⁴²

Belize is also characterized by a relatively high level of corruption due to its ineffective enforcement of anti-corruption laws. Recently, there have been several corruption scandals involving senior officials in Belize. In 2020, its former National Security Minister, John Saldivar, the leader elect of the United Democratic Party was implicated in a U.S. federal fraud trial in Utah, involving falsifying applications for biofuel tax credits.¹⁴³ In 2022, Interpol issued a Red Notice on a former minister of this party, Rene Jaime Montero, who was charged with corruption in Belize.¹⁴⁴

In 2021, Guatemala ranked 30th on the Corruption Perception Index among 180 countries and 3rd in Central America, after Nicaragua and Honduras (Figure 9b).¹⁴⁵ Guatemala's criminal organizations have control of many government agencies and officials at the country level. A growing nexus of organized crime and the three government branches poses a significant security threat. Since the 2019 closure of the International Commission against Impunity in Guatemala (CICIG), many prosecutions have stalled. Furthermore, in 2021, the Constitutional Court overturned a law that attempted to hold corrupt officials accountable. As a result, many criminals remain immune from prosecution due to the corruption of law enforcement and the judiciary.

4.4. Violence

High levels of violence, kidnappings, and extortion committed by drug traffickers, gangs, and corrupt policemen are widespread in Central America, contributing to rising fears among citizens and facilitating further criminality. Belize remains among the most violent countries in Latin America, with one of the highest per capita homicide rates. In 2020, its homicide rate per 100,000 people was estimated at 25.8, which was significantly higher than the regional average (Table 9). The south side of Belize City is particularly dangerous, and it regularly declares states of emergency due to violence.¹⁴⁶

Figure 10: Homicide rates per 100,000 people, 2020



Source: UNODC (2020).¹⁴⁷

journalists.¹⁴⁸ Similarly, violence remains relatively high in Panama due to its drug trade and related criminal activities.

In 2020, Guatemala's homicide rate per 100,000 people was 19.0, which was slightly lower than the regional average (Figure 10). In this country, violence is primarily linked to the military and security forces connected to illicit actors. Recently, Guatemala has experienced an increase in attacks against independent prosecutors, judges, and

4.5. Free trade zone infrastructure and regulations

Panama has currently eleven active FTZs and nine more in development, located primarily in Panama City and Colón.¹⁴⁹ They provide a set of tax benefits and migratory and labor incentives protected by Law 32 of 2011.¹⁵⁰ Panama's Colón Free Zone has long been reported as a major transit hub for the illicit trade in tobacco products,¹⁵¹ originating from the UAE, China, India, and Paraguay.¹⁵² As the largest FTZ in the Western Hemisphere and the second largest in the world after Hong Kong, this zone is critical to Panama's economy. It hosts around 2,000 companies and employs 20,000 people.¹⁵³ Located near the Panama Canal, this zone generates 6% of all global commerce.¹⁵⁴ This location is one of the main keys to the attractiveness of the Colón Free Zone to both licit and illicit trades. The zone also benefits from the fact that the United States dollar is one of Panama's official currencies.

Location is one of the main keys to the attractiveness of the Colón Free Zone for both licit and illicit trades.

There is strong evidence that the Colón Free Zone continues to be a key hub for all sorts of illicit goods.¹⁵⁵ Its major vulnerabilities include lax operational rules, insufficient due diligence and background checks of companies, corrupt practices, and a lack of proper technology to identify and detect illicit merchandise.¹⁵⁶ Limited transparency makes it very difficult to track shipments to and from this zone, especially given its trade volumes. Many businesses in the Colón Free Zone accept large volumes of cash for wholesale trade, while the presence of banks and money services businesses right in the zone facilitates the money laundering of illicit proceeds.

Belize has currently five FTZs, which can be divided into two types – export processing zones and commercial free zones. Their key difference is that business owners in export processing zones focus mainly on manufacturing and exporting activities, while business owners in commercial free zones conduct a much wider range of commercial operations.¹⁵⁷ The Corozal Free Zone, located on the border of Belize and Mexico, is a key regional transshipment hub for illicit goods.¹⁵⁸ The Global Illicit Trade Environment Index for Belize has a score of zero on FTZ governance due to its extremely limited FTZ legislation, lax enforcement, and underfunded monitoring agencies.¹⁵⁹

In 2021, Guatemala's Congress passed a legislative reform to the law on free zones, which allows for three types of tax-free regimes.¹⁶⁰ The first type of the Free Zone for Industry and Commerce (*Zona Libre de Industria y Comercio*, ZOLIC) was originally created in 1981 near the seaport of Santo Tomás de Castilla. The reform extended it to other regions. The second type, the Maquila regime, encourages export activities in the IT sector, while the third one – the so-called FTZ regime – is primarily used for manufacturing and other services. All regimes provide tax exemptions, such as income tax, value-added tax, and import duties, allowing for importing and re-exporting duty-free products. Yet, they are subject to different administrative and customs control regulations (Table 9).

Table 9: Characteristics of FTZ regimes in Guatemala

FREE ZONE	FREE ZONE REGIME	MAQUILA REGIME	ZOLIC REGIME
SPECIALIZATION	Manufacturing & services	IT services	Manufacturing & services
DESIGNATED AREAS	It defines extra-customs areas for the company establishment, which, for tax purposes, are considered outside the territorial scope of certain tax burdens subject to customs control.	It allows companies to operate in an ad hoc place; however, the beneficiary must post a bond to ensure that imported inputs are not marketed in the national territory.	It defines extra-customs areas for the company establishment, which, for tax purposes, are considered outside the territorial scope of certain tax burdens subject to customs control.
ADMINISTRATORS AND CUSTOMS CONTROL	Companies operate in an area administered by a private operator under the control of a customs delegation in the authorized area.	A customs delegation is not required at the facilities; yet, the General Directorate of Customs controls the use of the bond.	The administrator is the same ZOLIC as a decentralized state entity. An authorized customs delegation performs control.
PAYMENTS TO GOVERNMENT	No	No	Lease payments to ZOLIC plus a fee for the administration.
MINIMUM NUMBER OF EMPLOYEES	Yes	Yes	No

Source: Authors' compilation.




Like in Panama and Belize, special customs control in Guatemala's FTZ creates the enabling environment for illicit activities. For example, weak oversight makes repacking and relabeling of smuggled commodities relatively easy,

while regulatory and legal loopholes and a lack of standardization among FTZs facilitate trade-based money laundering.

4.6. Container freight and passenger traffic

Panama is an important transportation hub for millions of passengers every year. Tocumen International Airport (DXB) is the busiest airport in Central America and one of the busiest airports in Latin America.

Table 10: Air traffic in Panama, Guatemala, and Belize, 2019

AIRPORT		TOTAL PASSENGERS
	Tocumen International Airport	15,616,065
	La Aurora International Airport	2,579,123
	Philip S. W. Goldson International Airport	867,976

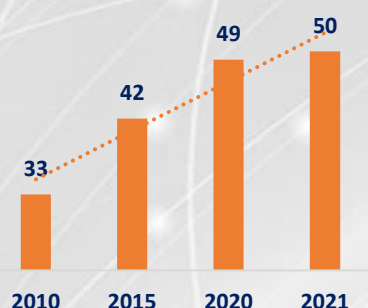
Source: GetToCenter (2020).¹⁶¹

Before the COVID-19 pandemic, Panama was ranked 10th on the number of passengers in the region, with over 15 million air travelers at Tocumen International Airport (Table 10). Smaller airports, such as La Aurora International Airport in Guatemala and Philip S. W. Goldson International Airport in Belize, have less intense passenger traffic. Due to the Covid-19 pandemic, their number significantly decreased.

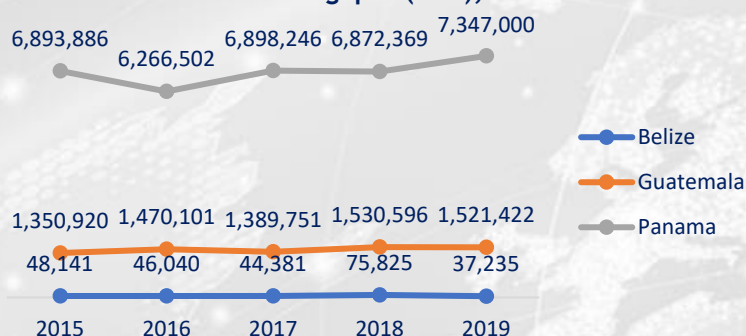
Panama plays a critical role as a regional maritime freight loading and unloading center. Its high liner shipping connectivity, ranked 1st in Latin America (Figure 10a), facilitates its high contribution to containerized port throughput. In 2019, Panama's ports handled over 7.4 million twenty-foot equivalent units (TEUs) of containers, accounting for about 14% of the regional port container traffic (Figure 11b). Huge traffic volumes of containers going through Panama's seaports make it extremely difficult to identify suspicious shipments.

Figure 11: Panama's liner shipping connectivity index and throughput in Panama, Belize, and Guatemala's ports

a. Panama's connectivity index, 2010-2021



b. Throughput (TEU), 2015-2019



Source: Authors based on data from UNCTAD (2022); CEPAL (2019).¹⁶²

Colón Port in Panama, which is the busiest port in Latin America and the Caribbean, and Panamá Pacífico Port, which ranks fifth on throughput in the region,¹⁶³ play critical roles in both licit and illicit trades, compared to much smaller ports in Guatemala.

4.7. Money-laundering infrastructure

In Latin America, Panama has long been a key offshore financial center and a hub for money-laundering activities, including those related to the Colón Free Zone. In the 1970s, Panama's government focused on the development of

“The Free Trade Zone and the banking system are totally symbiotic.”

the banking sector to diversify its economic activities in the Panama Canal. Trade through FTZs has always been a significant revenue source for Panamanian banks. As Nicholas Ardito Barletta, Panama's former Minister of Planning and Economic Policy, noted, “The Free Trade Zone and the banking system are totally symbiotic.”¹⁶⁴ A 2018 Mutual Evaluation Report by the Financial Action Task Force of Latin America (GAFILAT) found that Panama and its banking system are characterized

by high money laundering risks “derived from illicit financial flows from abroad ... and associated with drug trafficking, organized crime, smuggling and other offenses related to international trade.”¹⁶⁵

In June 2019, the FATF placed Panama on its “grey list” for increased monitoring due to deficiencies in its regime to counter money laundering and terrorist and proliferation financing.¹⁶⁶ Panamanian front companies are often used to launder the proceeds of corruption and illicit trade. In 2018, for example, the U.S. Department of the Treasury sanctioned a drug trafficking and money laundering network led by a former Chief of Financial Intelligence for Venezuela’s Bolivarian National Intelligence Service, Pedro Luis Martin Olivares (Martin). This network involved at least four Panama-based companies laundering illicit proceeds of both narcotics trafficking and extortion.¹⁶⁷ While in the National Intelligence Office, Martin facilitated the movement of multi-ton loads of cocaine from Colombia and Venezuela to the United States, by paying bribes to military officials at the border, shutting down military radar, and bribing other public officials. He used various money laundering methods, including smuggling U.S. dollars in bulk by aircraft, couriers, and trade-based money laundering.¹⁶⁸

Panama’s role as an offshore financial center was exposed in the 2016 Panama Papers which leaked records of a myriad of secretive offshore companies. Although recently Panama has made some progress on anti-money laundering efforts, it remains among the FATF grey-list countries.

The country’s banking sector has high risks of trade-based money laundering. The 2020 FinCEN Files database with leaked suspicious activity reports includes several dozens of Panama-based banks involved in suspicious transfers (Table 11). According to a 2010 analysis of suspicious activity reports by FinCEN, Panama was ranked third on money-laundering activities, mostly linked to the Colón Free Zone.¹⁷⁰ In 2012, U.S. Immigration and Customs Enforcement investigators analyzed 474 suspicious activity reports on trade-based money laundering and found that Panama was among the five most frequently mentioned countries, together with Nigeria, Hong Kong, Mexico, and Venezuela.¹⁷¹ One of the largest trade-based money laundering cases in Panama involved the Waked Money-Laundering Organization (Box 5).

Table 11: FinCEN Files: Panama’s suspicious transfers, US\$¹

TRANSACTIONS	AMOUNT/NUMBER
Received suspicious transfers	US\$19,697,049
Sent suspicious transfers	US\$23,104,326
Number of suspicious transactions	123

Source: ICIJ (2019).¹⁶⁹

Box 5: Trade-based money-laundering in Panama: The Waked Money-Laundering Organization

In 2016, the U.S. Treasury Department designated the Waked Money Laundering Organization and its leaders, a Panamanian-Colombian-Spanish national, Waked Hatum, and a Panamanian-Lebanese-Colombian national, Waked Fares. The network included at least six associates and 68 companies tied to drug money laundering. The network used trade-based money laundering schemes, including false commercial invoicing and bulk cash smuggling, to launder illicit proceeds on behalf of international drug traffickers. The network also used duty-free retail, real estate development, and financial services throughout the region.

Among others, the Treasury designated six Panama-based enabling businesses supporting the Waked money-laundering organization through import/export management, real estate transactions, and duty-free retail, and two attorneys who provided a variety of services, including incorporating shell companies. Among the designated Panama-based companies were Vida Panama (Zona Libre) S.A., an import/export company located in Panama’s Colón Free Zone, and Grupo Wisa S.A., a holding company for businesses involved in real estate, construction, retail, and hospitality, including the *La Riviera* chain of duty-free stores operating throughout Latin America. Panama’s bank Balboa Bank & Trust, the Strategic Investors Group Inc., and two other financial services companies were also linked to laundering illicit proceeds for multiple international criminal organizations.

Source: U.S. Treasury Department (2016).¹⁷²

According to a 2016 U.S. State Department report on money laundering and financial crimes, trade-based money laundering concerns have also surfaced in Belize and Guatemala.¹⁷³ In 2013, the Caribbean Financial Action Task Force identified Belize as a jurisdiction “with strategic AML/CFT [Anti-Money Laundering/Combating the Financing of Terrorism] deficiencies that pose a risk to the international financial system.”¹⁷⁴ Similarly, Guatemala has substantial money laundering and terrorist financing risks emanating from criminals seeking to hide their proceeds. The use of cryptocurrency tumbling or cryptocurrency mixing services for money laundering creates additional risks. Tumbling is a process where transactions in cryptocurrencies are cleaned by mixing them with other funds

¹ These data represent only a fraction of the total transaction amount in the FinCEN Files corresponding to a sample of 1,941 transactions.

from different sources to make their origin untraceable. Since tumblers can operate their businesses in multiple jurisdictions, their disruption requires international assistance and cooperation (Box 6).

Box 6: Disrupting a Bitcoin mixer business operated in the United States and Belize



















In 2021, Larry Dean Harmon, the founder of darknet search engine Grams, pleaded guilty to a money laundering conspiracy in which he moved more than US\$311 million worth of bitcoin to help drug traffickers and other criminals hide the source of their cryptocurrency. Harmon split his time between Greater Akron in the United States and a beachfront resort in Belize where he maintained part of his Bitcoin mixer business Helix, which he operated from 2014 to 2017. Helix provided mixing services, allowing customers to send Bitcoin to designated recipients in return for a fee. Harmon advertised Helix as a means to conceal transactions from authorities, writing in 2014 that “there is no way LE [law enforcement] would be able to tell which addresses are helix addresses.” However, U.S. authorities found a photograph in Harmon’s email account that showed a laptop with browser tabs open for Helix. Belize’s authorities also recovered evidence connecting Harmon to Helix, including external hard drives and tools used with cryptocurrency.

Sources: U.S. Department of Justice (2021); Heisig (2021).¹⁷⁵

5. NATIONAL ANTI-ILLCIT TRADE EFFORTS

To date, Panama, Belize, and Guatemala have made certain progress in advancing their anti-illicit trade legislation. Specifically, these countries have signed and ratified most international conventions regulating specific types of illicit trades (Table 18), except for the Protocol to Eliminate Illicit Trade in Tobacco Products (ITP) ratified only by Panama. Yet, despite Panama's ITP ratification, it still lacks effective regulations to tackle the trafficking of contraband cigarettes and other merchandise, which is not considered a priority on its security agenda. In terms of penalties, there are significant differences between Panama and other countries. For example, in Ecuador, a country with similar characteristics, contraband is considered a criminal offense when the value of goods exceeds ten minimum wages (equivalent to US\$4,500 in 2023) and is punished with imprisonment from three to five years, a fine of up to six times the customs value of the merchandise, and the confiscation of the assets, means, or instruments for the commission of the crime.¹⁷⁶ In comparison, Panama's Criminal Code punishes contraband as a felony if the merchandise amount exceeds US\$500,000, which is significantly higher than in Ecuador.¹⁷⁷ Such differences in national laws incentivize major contraband operators to move their activities to countries with lower risks of detention and softer penalties.

Table 18: Panama, Belize, and Guatemala's ratification of international treaties regulating specific types of illicit trade

CONVENTION/TREATY	YEAR	PANAMA	BELIZE	GUATEMALA
UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988	1990			
Arms Trade Treaty	2014			
Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)	1973			
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal	1992			
UNESCO 1970 Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property	1972			
Protocol to Eliminate Illicit Trade in Tobacco Products (ITP)	2018			

Sources: United Nations (n.d.); WTO (n.d.).¹⁷⁸

Panama, Belize, and Guatemala have ratified the United Nations Convention against Transnational Organized Crime, including its supplementing protocols: (i) the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, (ii) the Protocol against the Smuggling of Migrants by Land, Sea and Air, and (iii) the Protocol against the Illicit Manufacturing of and Trafficking in Firearms.¹⁷⁹ However, their implementation remains ineffective, and organized crime continues to penetrate law enforcement and customs in these countries. Due to the 36-year civil war, Guatemala is particularly vulnerable to collusion between security forces, law enforcement, and criminal groups. Corruption remains a significant concern inhibiting law enforcement activities, especially in border zones where the rule of law and government presence are extremely weak.¹⁸⁰ In 2021, the U.S. Government issued a public list (consistent with Section 353 of the United States-Northern Triangle Enhanced Engagement Act) of individuals involved in significant corruption or obstruction of investigations. This list includes 20 officials from Guatemala.¹⁸¹

The U.S. State Department places Panama, Belize, and Guatemala among Tier 2 countries, meaning that they do not fully comply with all minimum standards related to combating trafficking in persons.¹⁸² In Panama, a key inefficiency of the antitrafficking law is the requirement of movement to constitute a trafficking crime, which results in inadequate law enforcement investigations of internal trafficking cases and mis- or under-identifying internal trafficking victims.¹⁸³ In Belize, key inefficiencies include inadequate responses to official complicity in trafficking, ineffective control over labor recruitment, and lacking measures against demand for commercial sex.¹⁸⁴ In 2021, the Government of Guatemala arrested several public officials and police officers suspected of complicity in the money laundering and sex trafficking of women from Colombia, Venezuela, Brazil, and Central America, yet, they failed to prosecute or convict any of them.¹⁸⁵ One of the reasons is a high level of corruption in the judiciary.

Although Panama, Belize, and Guatemala have signed the United Nations Convention against Corruption, its implementation remains ineffective in all three countries. The judiciary in Central American countries is hindered by insufficient resources, as well as limited numbers of trained prosecutors and judges. In turn, a lack of effective anti-corruption mechanisms and safeguards is responsible for general public distrust in the judiciary. In Guatemala, in particular, the level of corruption in the judiciary remains very high. In May 2022, Guatemala's President Alejandro Giammattei reappointed the country's Attorney General Maria Consuelo Porras Argueta de Porres (Porras) to a new term, even though in 2021, she was included in the U.S. State Department's list of individuals engaged in significant corruption and obstruction of investigations.¹⁸⁶ In May 2022, the U.S. Department of State designated Porras due to her role in undermining anticorruption investigations in Guatemala.¹⁸⁷ After the closure of CICIG in 2019, this problem has significantly worsened. In June 2022, the Inter-American Commission on Human Rights included Guatemala on its list of countries characterized by widespread attacks on democratic institutions and serious human rights violations, such as Cuba, Venezuela, and Nicaragua.¹⁸⁸

In addition, money-laundering regulations remain ineffective in Panama, Belize, and Guatemala. Thus, the 2018 GAFILAT Mutual Evaluation Report of the Republic of Panama found that "its national policies and activities as implemented by the competent authorities are deemed not consistent with all the risks identified in the country."¹⁸⁹ The report also found multiple vulnerabilities disregarded by the country's national strategy on money laundering and its main risk sectors, including corporate services, free zones, real estate, and the financial sector.¹⁹⁰ These vulnerabilities allow criminals from all over the world to launder illicit funds in Panama.

In 2019, Panama made a high-level political commitment to work with the FATF and GAFILAT to strengthen its AML/CFT regime. After the release of the Panama Papers, the country has passed several laws and regulations to improve the transparency of corporations, foundations, and other legal arrangements.¹⁹¹ In 2019, Panama adopted Law 70, establishing tax evasion as a precedent for money laundering.¹⁹² Yet, despite its commitment, Panama has serious strategic deficiencies related to ensuring adequate verification of accurate beneficial ownership information, establishing mechanisms to monitor offshore entities, and assessing the existing risks of misuse of legal persons and arrangements.¹⁹³ In 2022, the FATF expressed significant concerns about Panama's failure to complete its action plan and urged all other states to apply enhanced due diligence to business relations and transactions with this country.¹⁹⁴

Belize's reforms aimed at improving its tax regime for international business companies led to its removal from the European Union's tax-haven blacklist in 2019.¹⁹⁵ Yet, it remains highly vulnerable to money laundering and terrorist financing risks. An analysis of secret financial documents, known as the Pandora Papers, released by the International Consortium of Investigative Journalists in 2021, provided strong evidence that Belize's operators set up trusts and shell companies for American clients suspected of fraud, tax evasion, and corruption.¹⁹⁶ Like Belize, Guatemala also remains highly vulnerable to money laundering and terrorist financing risks. Specifically, Guatemala's bank secrecy laws and lax financial regulations represent a significant barrier to effective anti-money laundering investigations.

Panama, Belize, and Guatemala suffer from ineffective law enforcement due to insufficient prevention resources necessary to reduce rates of crime and violence. To strengthen their law enforcement capacities to counteract illicit trade and other criminal activities, Panama, Belize, and Guatemala participate in various programs with the United States and other partner countries. For example, their cooperation with the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) helps increase drug and contraband seizures. Thus, the INL-supported Guatemalan K-9 Unit was responsible for more than 39% of the 18,000 kilograms of drugs seized by the police and military units in 2019.¹⁹⁷ In Guatemala, INL also funds an FBI-mentored Transnational Anti-Gang Unit and supports the joint Attorney General and Anti-Gang Police Unit, which gathers actionable intelligence to prosecute and disrupt transnational gang activity.¹⁹⁸

In Panama, INL provides training and logistical support to SENAFRONT, the national border police force, helping it secure the Panama-Costa Rican border and the Darién Gap, a main trafficking route for Colombia-based armed groups and criminal organizations.¹⁹⁹ In 2019, for example, SENAFRONT seized 3.8 tons of cocaine with INL support.²⁰⁰ In 2020, INL also assisted the Government of Guatemala in establishing two interagency highway checkpoints involved in developing 12 strategically located checkpoints throughout Guatemala's roadway infrastructure to curb trafficking and irregular migration.²⁰¹ In Belize, INL provides inspection equipment for border police forces and customs officials and funds a resident U.S. Customs and Border Protection Advisor who assists Belize in strengthening its ability to prevent trafficking.²⁰²

In terms of countering trade-based money laundering, Panama and Guatemala participate in the Trade Transparency Unit (TTU) program under the U.S. Department of Homeland Security's (DHS) Immigration and Customs Enforcement (ICE). Within this program, ICE set up TTUs in several partnering countries to exchange trade

data. The cooperation between TTUs helps identify trade-based money laundering through data exchange between different countries. For instance, Panama's TTU provided analytical support for an investigation that led to the disruption of an illicit tobacco smuggling ring involving several Panamanian companies.²⁰³ This investigation resulted in four arrests and seizures of over US\$10 million in cigarettes.²⁰⁴ Such cases indicate multiple benefits of the expansion of the TTU program into all Central American countries.

6. CONCLUDING REMARKS AND RECOMMENDATIONS

A critical issue for all Central American economies is systemic corruption, which is one of the key factors enabling illicit trade and other criminal activities. As expressed by Juan Carlos Buitrago Arias, the Director of Colombia's Fiscal Customs Police, "Where there is contraband, there is, without doubt, corruption."²⁰⁵ One of the preconditions for effective anti-illicit trade measures is strengthening anti-corruption safeguards. Limited numbers of trained prosecutors and judges, as well as underfunding of the judiciary in Panama, Belize, and Guatemala, prevent effective prosecutions of corrupt politicians, officials, and law enforcement officers.

"Where there is contraband, there is, without doubt, corruption."

As the CICIG experience in Guatemala showed, the formation of international entities to fight against impunity can be a last resort for countries where state structures are captured by organized crime and clandestine security organizations. Before its closure in 2019, CICIG has achieved numerous victories in prosecuting corrupt politicians, businessmen, judges, and law enforcement officers and reforming legal and judicial institutions in Guatemala.²⁰⁶ Several recommendations derived from the CICIG experience relate to the importance of collective action initiatives, local capacity building, and strategic approaches to criminal prosecution, with a focus on high-profile cases and clientelistic networks. In addition, it is important to gain the support of the general public and civil society to prevent resistance to anti-corruption reforms on the part of informal networks.

Tackling illicit trade risks in FTZs in Central American countries requires the use of new technology to identify and detect illegal merchandise, such as artificial intelligence and machine learning. In addition, it is necessary to make improvements in FTZ regulations and policies. Drawing on international agreements and best practices, the International Chamber of Commerce provides recommendations to counter illicit trade activities in FTZs at the levels of national governments and free zone operators.²⁰⁷ The OECD recommendations on enhancing transparency in FTZs include the following measures:

- ❖ ensuring that managers are trained on smuggling and fraud techniques and methods used by illicit traffickers and are aware that a lack of proactive action negatively affects the FTZ's reputation;
- ❖ adopting legal norms providing unconditional access to the customs authorities to carry out unobstructed checks of operators to support investigations of trade violations;
- ❖ prohibiting legal or natural persons convicted of illegal economic or financial activities from operating within FTZs;
- ❖ ensuring that economic operators in FTZs maintain detailed digital records of all shipments entering and leaving FTZs, as well as all goods and services produced there; and
- ❖ incentivizing electronic payments for all commercial and financial transactions occurring in FTZs and ensuring the traceability of all cash transactions.²⁰⁸

Furthermore, to tackle existing money-laundering risks, Panama, Guatemala, and Belize must adopt legislative measures and set forth regulatory rules affecting current activities of trade platforms and services.²⁰⁹ As the U.S. TTU program shows international cooperation is a necessary prerequisite for countering money laundering. However, a significant drawback within this program is a lack of direct U.S. funding provided for partnering TTUs to support their activities.²¹⁰ Thus, a 2020 U.S. GAO report found that "limited support from some U.S. embassies and a lack of Homeland Security Investigations staff posted at them negatively affected the TTU program."²¹¹ Direct funding could be used for training and purchasing special equipment by TTUs Panama, Guatemala, and other countries. Another recommendation refers to the development of a performance monitoring framework for the TTU program that would enable tracking its results and assessing its effectiveness.²¹² The TTU program also needs to increase the use of artificial intelligence and machine learning.

Another good example of international 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.²¹³ 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 the ports of Colón, Balboa, and Manzanillo in

Panama and the Port of Cortes in Honduras.²¹⁴ The importance of this initiative is explained by the fact that about 80% of the global trade is transported in cargo containers, and this number is even higher in most developing countries.²¹⁵

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, Guatemala's Trade Security Initiative proposes a special security regime to ensure that all high-risk containers are identified and inspected at foreign ports before they arrive in Guatemala for their transshipment to the United States (Box 7).

Box 7: Guatemala's Trade Security Initiative

The Guatemala Trade Security Initiative is a modification of the Container Security Initiative that applies its core elements to shipments of drugs, counterfeit commodities, and contraband to Guatemala's seaports. This initiative calls for an open international "Terminal Operation Concession" in all Guatemalan ports under international supervision and underlines the importance of sending U.S. officers to foreign ports to enhance security.

Key objectives:

- ❖ to establish security criteria for identifying high-risk containers and eliminate transnational organized crime groups at Guatemalan ports, by using non-intrusive inspection and radiation detection technology to screen containers before they enter Guatemala and are transhipped to U.S. ports;
- ❖ to reduce the traffic of drugs, counterfeit commodities, and contraband goods arriving in Guatemala and prevent their triangulation to the United States;
- ❖ to improve port security and prevent terrorist attacks.

Requirements that the Customs Administration must meet within the Guatemala Trade Security Initiative:

- ❖ inspect cargo using non-intrusive inspection equipment (large-scale X-ray and gamma-ray machines and radiation detection devices);
- ❖ commit to establishing a risk management system to identify potentially high-risk containers and automate this system;
- ❖ commit to sharing critical data, intelligence, and risk management information with the United States;
- ❖ conduct a thorough port assessment to identify weak links in its infrastructure and immediately resolve these vulnerabilities;
- ❖ commit to maintaining integrity programs and combatting their breaches;
- ❖ start a concession process for all the port terminal operations in Guatemala under international supervision.

Sources: Fernandez (2022); U.S. Customs and Border Protection (2022).²¹⁶

Finally, it is necessary to raise awareness about the problem of illicit supply chains and growing volumes of contraband and counterfeit commodities among the public and different sectors of the economy to encourage individual consumers and private organizations to report illicit goods and 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. For example, in 2021, the Latin American and Caribbean Parliament (Parlatino), whose members include Guatemala and Panama, approved the Model Law to Combat Illicit Trade and Transnational Organized Crime.²¹⁷ Among other things, this law underscores the importance of cooperation between the private and the public sectors and coordination between various institutions at the country, regional, and international levels aimed at preventing smuggling and illicit trade.

Endnotes

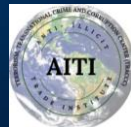
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