

GLOBAL FINANCIAL INTEGRITY

Transnational Crime In The Developing World



Jeremy Haken
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¹ Growing up, Jeremy Haken spent fifteen years in Yaounde, Cameroon. Through this experience he became interested in how different cultures and countries overlap in an increasingly interconnected world. He is currently pursuing a Masters degree at American University's School of International Service with a concentration on African conflict in the age of globalization. Global Financial Integrity and the Author would like to thank Kelsey Willingham, Lauren Citrome, Rachel Brown, Padden Murphy, and David Chalude for their contributions to the report.



Illicit money flowing out of developing countries is generated in three forms—as the proceeds of 1) bribery and theft by government officials, 2) criminal activity, and 3) commercial tax evasion. Of these three, the criminal component is the most difficult to estimate.

Global Financial Integrity (GFI) launched a project 18 months ago attempting to produce a credible assessment of this harmful phenomenon. As we delved into the analysis two related issues became clear. First, criminal activity can bring some money into developing countries while at the same time sending economic and human resources out. Second, netting the economic effects of criminally derived outflows and inflows is flawed reasoning because both sides of the equation produce adverse consequences for nations at risk. Hence, we moved past the idea of analyzing only criminally generated financial outflows and have chosen instead to evaluate the overall size of criminal markets in 12 key categories which have their primary roots in poorer nations. We do not attempt to apportion the damage done to poor and rich countries respectively, but we do assert that the greatest injury is to the 80 percent of the global population living in the developing world. Our position is that concluding whether these activities take money out or bring money in or both is less important than grasping the enormity of the impact of these criminal pursuits on struggling states.

Our analysis covers drugs, human trafficking, wildlife, counterfeiting, trade in human organs, small arms, diamonds and other gems, oil, timber, fish, art and cultural property, and gold. It does not include credit card fraud, advance fee fraud, intellectual property, piracy, carjacking, smuggling out of free trade zones into neighboring or nearby countries, and other forms of illicit and underground economic activity.

This analysis was conducted through a review of the literature on the 12 criminal activities under study. One of the major contributions of this report is its 297 footnotes, providing a guide for additional research in the future.

We find that these 12 categories of criminal activity generate global proceeds of some \$650 billion annually. Drug trading is the largest single component, followed by counterfeiting.

The cross-border passage of criminal money is facilitated by the global shadow financial system comprising tax havens, secrecy jurisdictions, disguised corporations, anonymous trust accounts, fake foundations, trade mispricing, and money laundering techniques. This is precisely the same structure that enables the movement of the other two components of illicit proceeds—the corrupt and commercially tax evading money. We cannot succeed in curtailing part of these flows while at the same time facilitating other parts of these flows. The developing countries bear most of the burden of this facilitating global structure, producing impoverishment, violence, and shortened lives for millions of people across the world.

GFI thanks Jeremy Haken, lead author, for his dedication and determination in bringing this difficult study to fruition. Kelsey Willingham, Lauren Citrome, Rachel Brown, Padden Murphy, and David Chalude provided very valuable inputs.

We welcome critiques, fresh insights, and new data, as we continue to seek an accurate appraisal of global criminal activity. By understanding its magnitude and focusing on the systemic nature of the problem we can curtail this destabilizing reality.

Raymond W. Baker

Director, Global Financial Integrity

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Executive Summary

This report analyzes the scale, flow, profit distribution, and impact of 12 different types of illicit trade: drugs, humans, wildlife, counterfeit goods and currency, human organs, small arms, diamonds and colored gemstones, oil, timber, fish, art and cultural property, and gold. Though the specific characteristics of each market vary, in general it can be said that these profitable and complex criminal operations originate primarily in developing countries, thrive in the space created by poverty, inequality, and state weakness, and contribute to forestalling economic prosperity for billions of people in countries across the world.

The global illicit flow of goods, guns, people, and natural resources is estimated at approximately \$650 billion. Though data is scarce and experts are constantly debating the relative merits and weaknesses of every new study, it is generally accepted that illicit drug trafficking and counterfeiting are the two most valuable markets. This report finds the illicit drug trade to be worth roughly \$320 billion and counterfeiting \$250 billion. These numbers reflect the potential for huge profits which is the fundamental driver of criminal trade.

The second key finding is that profits from illicit markets are funneled mainly to the transnational crime syndicates who establish and maintain vast trade networks. In source countries, though forced labor is known to occur, laborers are generally paid. Their rates, however, make up only a tiny fraction of the overall profits derived from the trade. In supplying cocaine to the United States, for example, coca farmers in South America make less than two percent of the final retail value. In the case of organ trafficking, a kidney donor often makes less than \$5,000, while the trafficker could net as much as ten times that amount. These traffickers operate in complex networks which include everyone associated with the production, transport, and sale of an illicit good; from the laborer, to the corrupt customs official, to the migrant worker who offers illicit goods or services in New York or London. In some cases, like gold, diamonds, and cultural property, the origins of a good must be obscured so it can enter the legitimate market. This often involves the falsification of paperwork and a buyer who is either complicit or simply avoids asking too many questions.

The final and most critical point is that criminal networks, which function most easily where there is a certain level of underdevelopment and state weakness, have very little incentive to bolster the legitimate economies in the countries where they operate. Unregulated, they minimize overhead in developing source countries by exploiting local labor forces, often resorting to forced or child labor, dodging environmental and safety regulations, and evading trade tariffs. Any improvements in economic development and governance would usually hinder their illegal activities, so it is in their best interest to actively prevent their profits from flowing into legitimate developing economies. In this way, transnational crime and underdevelopment have a mutually perpetuating relationship.

I. Introduction

In August 2010, the bodies of 72 immigrants were discovered in Tamaulipas, a state in northeastern Mexico. While nobody knows the sequence of events that led to this massacre, it is well known that Tamaulipas is at the center of a turf war between two powerful drug cartels, the Zetas and the Gulf Cartel.¹ It is also well known that lately these cartels have expanded their criminal operations to include fuel bunkering, prostitution, kidnapping, and even software piracy.²

Across the Atlantic, in October 2010, 11 people were arrested for alleged organ trafficking between Syria and Egypt. The criminal group is believed to have transported poor donors from Syria to Cairo, where their kidneys were sold “to wealthy patients from Saudi Arabia and the United Arab Emirates.”³ A human kidney can sell for as much as \$15,000 on Cairo’s black market, with most of the profits going to hospitals, laboratories, and middlemen. Donors rarely receive more than \$2,500.⁴

One need not look too hard to find stories like these in newspapers the world over. The simple fact is that transnational organized crime is big business in an increasingly globalized economy. From China to Nigeria to Mexico, entrepreneurial criminals will navigate around laws and across borders, supplying illegal or illegally acquired goods and services to meet the demands of the highest bidders. Whether it is drugs, human kidneys, human beings, illegally harvested timber, weapons, or rhinoceros horns, as long as someone is willing to buy it, someone will be willing to sell it.

There are those who would look at these markets and balk at the immorality of it, and certainly a case can be made that the buying and selling of something like human organs is, at the very least, unsavory. But what of timber, or gold, or fish? The illegal harvesting of wood products might be the only way for an impoverished Malaysian man to make a living. Is this immoral? Who does this hurt? Furthermore, what of the argument that these criminal flows bring an inflow of capital to developing economies? Like it or not, one could say, \$2,500 paid for a kidney in Cairo equals an injection of \$2,500 into the Syrian economy.

Taking these arguments into consideration, that question—who does this hurt?—becomes the foundational question of this report. After thousands of pages of research over the course of two years, the authors of this report confidently hypothesize that simply increasing the amount of money in a country does not automatically benefit the economy of the country in question. Rather, these

¹ “Dozens of bodies found at Mexico ranch,” BBC News, August 25, 2010, accessed October 14, 2010, <http://www.bbc.co.uk/news/world-latin-america-11080584>.

² Hawley, Chris, “Drug cartels tighten grip; Mexico becoming ‘narco-state’” *The Arizona Republic*, February 7, 2010, accessed October 14, 2010, <http://www.azcentral.com/news/articles/2010/02/07/20100207mexico-lawlessness.html>.

³ “Eleven arrested for alleged Damascus-to-Cairo organ trafficking,” *Al-Masry Al-Youm*, October 4, 2010, accessed October 14, 2010, <http://www.almasryalyoum.com/en/news/eleven-arrested-alleged-organ-trafficking-damascus-cairo>.

⁴ *Ibid.*

criminal flows can do immeasurable structural damage to developing economies by empowering forces which erode the capacity of the state.

In the pages ahead, this report analyzes 12 different criminal markets: drugs, humans, wildlife, counterfeit goods and currency, human organs, small arms, diamonds and colored gemstones, oil, timber, fish, art and cultural property, and gold. In each case the analysis will look at the estimated value of the market, the directionality of the flow, the distribution of profits, and effects of the trade on developing countries. All data is based on an extensive literature review. However, sources cited are careful to point out that illicit markets are, by their very nature, opaque and thus estimates are often based on insufficient data. Nevertheless, by comparing global estimates with directionality and profit distribution, this report is able to demonstrate the complex relationship between transnational crime and the developing world.

II. Drug Trafficking

Overview

The illicit trade in drugs continues to have a devastating impact on the developing world, both economically and socially. Estimates vary as to the value of the illicit trade in drugs, but there is little doubt that, of all the illicit markets, the drug market is king. Furthermore, it is widely understood that groups engaging in drug trafficking also engage in other sorts of violent and criminal enterprise, from mass murders and human smuggling in Mexico, to the funding of militant insurgents and terrorists such as Al Qaeda, the FARC in Colombia, and possibly Hezbollah in Lebanon.

The United Nations Office on Drugs and Crime's (UNODC) yearly "World Drug Report" is one of the most comprehensive resources on the state of the global drug trade, and is also one of the few reports that attempts to calculate the total value of the global market. According to the 2010 World Drug Report, the illicit drug market can be divided into four main categories: cocaine, opiates (heroin and opium), amphetamine-type stimulants (ATS), and cannabis. Of these four categories, "most of the long-distance trafficking involves cocaine and heroin,"⁵ while much of the cannabis and ATS is produced and sold intraregionally. Cocaine and opiates are produced almost exclusively in developing countries—cocaine in Colombia, Peru, and Bolivia⁶; opiates in Afghanistan, Myanmar, Mexico, and Colombia.⁷

Estimated Value of the Illicit Drug Market

The global value of the illicit drug trade is extremely difficult to calculate, and as a result estimates have varied dramatically. The 2005 UNODC World Drug Report estimated the worldwide drug trade at \$320 billion.⁸ By contrast, also in 2005, in an issue of *The Journal of Drug Issues*, Francisco E. Thoumi stated that an unpublished 1999 study by Peter Reuter was "probably the most serious attempt to ascertain the size of the world illegal drug market."⁹ Reuter's study estimated the value of the market at a range between \$45 and \$280 billion. Peter Reuter also participated in a more recent study for the European Commission which does not report "a total estimate for all drugs globally,"¹⁰ but does find best estimates of retail revenues to be "less than one half those of the UNODC, though there is considerable uncertainty."¹¹

⁵ United Nations Office on Drugs and Crime, "World Drug Report," 2010: 12, accessed October 1, 2010, http://www.unodc.org/documents/wdr/WDR_2010/World_Drug_Report_2010_lo-res.pdf.

⁶ *Ibid.*, 16.

⁷ *Ibid.*, 20.

⁸ United Nations Office on Drugs and Crime, "World Drug Report," 2005: 2, accessed September 27, 2010, http://www.unodc.org/pdf/WDR_2005/volume_1_web.pdf.

⁹ Francisco E. Thoumi, "The Numbers Game: Let's All Guess the Size of the Illegal Drug Industry!," *Journal of Drug Issues* 35, no. 1 (January 1, 2005): 191, accessed October 1, 2010, http://www.tomfeiling.com/archive/Thoumi_on_the_Numbers_Game.pdf.

¹⁰ Reuter, Peter and Franz Trautmann, eds., "A Report on Global Illicit Drugs Markets 1998-2007," *European Communities* (2009): 32, accessed December 10, 2010, http://ec.europa.eu/justice/doc_centre/drugs/studies/doc/report_short_10_03_09_en.pdf.

¹¹ *Ibid.*, 12.

In the latest World Drug Reports, UNODC does not publish an estimate for the worldwide drug trade as a whole. The organization does, however, publish estimates for the global cocaine and opiate markets. The 2010 report puts the retail value of the global cocaine market at \$88 billion¹² and the retail value of the global opiate market at \$65 billion.¹³ 2005 was the last time UNODC published an estimate for the global cannabis market. Citing data from 2003, it estimated the retail value of the cannabis market at \$141.9 billion.¹⁴ Because this figure is over five years old and because of recent evidence that cannabis is produced in almost every country in the world, the continuing accuracy of this estimate is uncertain. However, it does serve to reflect the fact that cannabis remains “the most widely consumed drug worldwide.”¹⁵ ATS is also difficult to estimate because it can be produced anywhere precursor chemicals can be found. As a result, it is usually produced near major consumer markets.¹⁶ Though recent reports do not evaluate the size of the ATS market, the 2005 World Drug Report estimated it at around \$44 billion.¹⁷

Analyzing the Flow of Illicit Drugs

The production of cocaine and opiates takes place entirely in developing countries. Cocaine starts in the Andean countries of Colombia, Peru, and Bolivia with the vast majority destined for consumption in the United States and Europe. Trafficking routes vary, but a very significant portion—estimated retail value over \$35 billion—is transported by sea from Colombia to Mexico, and then by land into the United States and Canada.¹⁸

At a retail value of some \$34 billion, the European cocaine market is the second largest in the world.¹⁹ Cocaine destined for Europe follows several routes. Some flows out of South America through Venezuela, into the Caribbean, and then to Europe on sailing vessels. Another option is for cocaine to be transported by sea or by air into West Africa and then transferred onto smaller vessels for transport to Europe.²⁰ Most of the cocaine enters Europe either through Spain and Portugal in the south or through the Netherlands and Belgium in the north.²¹

According to UNODC production of opiates is concentrated in three regions: “Afghanistan, South-East Asia (mostly Myanmar), and Latin America (Mexico and Colombia).”²² This means that, as with cocaine, production occurs exclusively in developing countries. Unlike cocaine, however, though Europe is a major heroin consumer (26 percent of global consumption), overall consumption is not nearly as concentrated in the developed world. In fact, developing countries or regions (Russia,

¹² UNODC, “World Drug Report,” 2010: 69.

¹³ *Ibid.*, 37.

¹⁴ “UNODC World Drug Report,” 2005: 17.

¹⁵ “UNODC World Drug Report,” 2010: 13.

¹⁶ *Ibid.*, 22.

¹⁷ “UNODC World Drug Report,” 2005: 17.

¹⁸ “UNODC World Drug Report,” 2010: 74.

¹⁹ *Ibid.*, 16.

²⁰ *Ibid.*, 84.

²¹ *Ibid.*, 83.

²² *Ibid.*, 37.

China, Africa, Pakistan, Iran, India, and South/SE Asia) make up as much as 62 percent of global heroin consumption.²³

Within a given region, cannabis and ATS are also known to be transported illegally across borders. However, it is difficult to draw conclusions about the directionality of the flows between developing and developed countries. As with any market, it is likely that cheaper product produced in developing countries flows toward wealthy markets in developed countries. With cannabis and ATS, however, this is unconfirmed due to the insufficiency of data. In the case of ATS, one trend that seems to be emerging is that, as developed countries tighten controls over precursor chemicals, production will increasingly occur in developing countries. This is already evident in Mexico, where production of methamphetamine has increased as the United States has imposed strict domestic controls over the precursor chemicals pseudoephedrine and ephedrine.²⁴

Profit Distribution

An analysis of profit distribution demonstrates the global inequities associated with the drug trade. In 2008, of the \$35 billion U.S. cocaine market, for example, coca farmers in the developing source countries made about \$500 million. This equates to 1.4 percent of gross profits. Traffickers within the source countries then made approximately \$400 million (one percent), followed by international traffickers (i.e. Mexican drug cartels) who made \$4.6 billion (13 percent).²⁵ When added together, only 15 percent (\$5.4 billion) of the \$35 billion retail value was made in developing source or transit countries. This means that \$29.6 billion was generated after the drugs entered the United States.

Though there is some variation in the specific numbers, this trend is replicated in other drug markets. For the European cocaine market, just over one-fourth of the \$34 billion (\$8.8 billion) went to farmers and traffickers in developing source and transit countries.²⁶ And in Afghanistan, the source of 90 percent of global illicit opiates, the opium economy generated \$2.4 billion, a mere 3.5 percent of the total value of the opiate industry in 2009.²⁷

This unequal distribution of profits is partially balanced out by two important qualifications. First, this analysis has already alluded to the fact that over 60 percent of opiates are consumed in developing countries. In this case, the distribution of profits between rich and poor countries is irrelevant because all profits would be occurring in developing countries.²⁸ Second, it is important to factor in the nationalities of the individual traffickers. For example, from 2000 to 2008, heroin traffickers arrested in Italy included some Italians, but also Albanians, Turks, Pakistanis, Nigerians, and more.²⁹ Though it is impossible to calculate, it must be assumed that in that eight-year period,

²³ *Ibid.*, Figure 7, p. 41.

²⁴ *Ibid.*, 107.

²⁵ *Ibid.*, Figure 39, p. 79.

²⁶ *Ibid.*, Figure 52, p. 88.

²⁷ *Ibid.*, 42.

²⁸ This phenomenon, often called South-to-South trade, is a recurring phenomenon throughout this report.

²⁹ *Ibid.*, Figure 14, p. 58.

a certain percentage of heroin profits, though generated in Italy, eventually found their way to the traffickers' home countries.

Drugs and the Developing World

There is a self-perpetuating relationship that exists between transnational crime and developing countries. Nowhere is this relationship more visible or volatile than with the trafficking of illicit drugs. Though there is no universal definition of "developing country," most definitions refer to a country that is poor, usually in the area of GDP per capita.³⁰ These countries exist in an international arena where communications and trade networks are easily established, and global demand for illicit drugs offers the possibility of huge profits. In this context it is not difficult to see why a farmer might grow coca instead of bananas, or why a low-paid customs official could be enticed to look the other way as illicit drugs leave his country.

Subsequently, any profits that are made rarely serve to bolster the official economy or the capacity of the state. Criminals profiting from the drug trade will generally do one of two things with the money. First, in many cases, profits will be funneled into an unofficial "shadow" economy where they fund other criminal enterprises like human trafficking, prostitution, arms dealing, and more.³¹ In these cases, criminal flows breed more criminal flows, which simply continue to take advantage of the incapacity of the state.

Second and even more damaging, drug profits will often be used to criminalize the state itself. This ordinarily occurs when traffickers induce state officials to abandon their commitment to uphold the rule of law. This corruption is achieved through the promise of some material gain and, if necessary, the threat of harm. In some cases, traffickers will use profits to fund electoral campaigns, thus securing the goodwill of an incoming elected official for the duration of his term. In extreme cases, traffickers will simply use funds to field their own candidates in elections. According to UNESCO, when this happens, "criminals become, both personally and officially, the servants of the very State whose laws they violate, as some sectors of State administration are placed under their legal responsibility."³²

In this way, drug traffickers profit from the poor conditions that exist in developing countries, and then use those profits to erode the capacity of the state even further. When taken to the extreme, these criminals can even criminalize or capture the state entirely, in which case the public sector becomes a haven for criminal enterprise, and the social contract with the citizenry is broken.

³⁰ "Definitions of 'developing country' on the web," *Google*, accessed October 18, 2010, http://www.google.com/search?hl=en&rlz=1C1RNCC_enUS320US320&defl=en&q=define:developing+country&sa=X&ei=2FS8TNUCG4GclgeRgtn_DQ&ved=0CUBYQkAE.

³¹ Fabre, Guilhem and Michel Schiray, "Globalisation, Drugs and Criminalisation: Final Research Paper on Brazil, China, India and Mexico," UNESCO, 2002: Executive Summary, p. 11, accessed October 18, 2010, <http://unesdoc.unesco.org/images/0012/001276/127644e.pdf>.

³² *Ibid.*, Part 1: Drug Trafficking and the State, p. 2.

III. Human Trafficking

Overview

By international convention, human trafficking and migrant smuggling are viewed as two different phenomena. Migrant smuggling is procuring the illegal entry of a person into a state of which the person is not a national or permanent resident, in order to obtain a financial or other material benefit.³³ Human trafficking is defined as the act of recruiting, transporting, transferring, harboring or receiving persons for the purpose of exploitation, by using or threatening force, coercion, abduction, fraud, deception, or abuse of power against them, or by giving or receiving payment or benefit to those who control them.³⁴

In practice, human smuggling and human trafficking can be much harder to differentiate. A common example might involve a migrant who is brought to Europe with the help of smugglers but then the individual cannot afford to pay for the transport costs. These costs must then be repaid through years of work in slave-like conditions that were not part of the original smuggling agreement. This situation begins as a smuggling incident but changes upon arrival to more closely resemble human trafficking.

Estimated Value of the Trade in Humans

It is the position of this report that, while migrant smuggling does involve a significant initial investment for families in developing countries, it does not result in an overall capital outflow from developing countries. This is because most people smuggled into the developed world send remittances back to their countries of origin. In time, these remittances often amount to more than the original smuggling fees, and, combined with remittances from other migrants, can add up to as much as 10 to 45 percent of the developing economy's GDP.³⁵ In the United States, for example, UNODC estimates that smugglers are paid around \$7 billion to bring 2.7 million Latin Americans over the border every year.³⁶ Though it would seem as though this equates to a \$7 billion outflow from developing countries, in fact this amount is more than made up in the \$20 billion in remittances which migrants send back to Latin America every year.³⁷ Furthermore, in a small country like Honduras, remittances account for 21 percent of national GDP.³⁸

³³ United Nations Criminal Justice Information Network, "Protocol against the Smuggling of Migrants by Land, Sea and Air, Supplementing the United Nations Convention Against Transnational Organized Crime," 2000: Article 3, pg. 2, accessed October 4, 2010, http://www.uncjin.org/Documents/Conventions/dcatoc/final_documents_2/convention_smug_eng.pdf.

³⁴ United Nations Criminal Justice Information Network, "Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, Supplementing the United Nations Convention Against Transnational Organized Crime," 2000: Article 3, accessed October 2, 2010, http://www.uncjin.org/Documents/Conventions/dcatoc/final_documents_2/convention_%20traff_eng.pdf.

³⁵ UNODC, "The Globalization of Crime: A Transnational Organized Crime Threat Assessment," 2010: Figure 41, p. 56, accessed October 4, 2010, http://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf.

³⁶ *Ibid.*, 4.

³⁷ *Ibid.*, 60.

³⁸ *Ibid.*, Figure 41, p. 56.

Human trafficking is another story entirely. In a 2005 report for the International Labor Organization (ILO), Patrick Belser estimates that over 2.5 million people are either sexually or economically exploited as victims of human trafficking. This includes cross-border trafficking as well as trafficking within countries. Within this estimate, 1.4 million people are believed to be victims of commercial sexual exploitation, and 1.1 million are victims of other forms of economic exploitation.³⁹

In order to provide an estimate of global profits, Belser calculated an annual value-added per worker, per type of exploitation. He found that an economically exploited individual generates annual profits ranging from \$360 (Sub-Saharan Africa) to more than \$30,000 (industrialized economies),⁴⁰ while the average sexually exploited individual generates anywhere from \$10,000 (Sub-Saharan Africa and Asia) to \$67,000 (industrialized economies).⁴¹ At these rates, based on regional distribution, Belser calculates that victims of human trafficking generate \$3.8 billion through economic exploitation and \$27.8 through sexual exploitation. In total, human trafficking can thus be estimated as a \$31.6 billion industry.⁴²

Analyzing the Flow of Human Trafficking

Though it is difficult to know where all human trafficking victims originate, it is likely that the vast majority are from developing countries. In UNODC's analysis of sex trafficking to Europe, for example, the majority of victims come from developing countries in the Balkans and the former Soviet Union.⁴³ In general, trafficking victims are rarely kidnapped or taken by force. In most cases they are either lured away from their homes with the promise of a better life and greater economic opportunity, or they are voluntary migrants who unwittingly fall into the hands of predatory traffickers. Other commonly listed countries of origin include Brazil, Colombia, Mexico, Nigeria, Morocco, Myanmar, and Vietnam.⁴⁴

With most trafficking victims originating in developing countries, there is no doubt that many are destined for the developed world. According to a 2006 UNODC report, main destinations include the United States, Canada, the European Union, Japan, and Australia. It would be oversimplifying, however, to suggest that this is merely a 'South-to-North' phenomenon. Other main destinations include Saudi Arabia and Turkey, and further complicating matters, China, India, Pakistan, Poland, and the Czech Republic are frequently reported as both origin and destination countries.⁴⁵ Belser estimates that 70 percent of sex trafficking victims and 38 percent of people trafficked for economic exploitation are destined for Asia and the Pacific.⁴⁶

³⁹ Belser, Patrick, "Force Labor and Human Trafficking: Estimating the Profits," International Labour Organization, March 2005: 5, accessed October 20, 2010, <http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1016&context=forcedlabor>.

⁴⁰ *Ibid.*, Table 6, page 12.

⁴¹ *Ibid.*, Table 9, page 15.

⁴² *Ibid.*, Table 11, page 17.

⁴³ UNODC, "The Globalization of Crime: A Transnational Organized Crime Threat Assessment," p. 3.

⁴⁴ UNODC, "Trafficking in Persons: Global Patterns," 2006: Figure 1, p. 17, accessed October 20, 2010, http://www.unodc.org/pdf/traffickinginpersons_report_2006-04.pdf.

⁴⁵ *Ibid.*

⁴⁶ Belser, 12-17.

Profit Distribution

In the case of human trafficking, the profits generated depend largely on the destination country. Belser estimates that individuals trafficked for economic exploitation in developed countries make an average of \$30,000 per year while similar workers in Asia make only a little more than \$400 a year. This difference accounts for Belser's assertion that trafficking victims in developed countries generate as much as 50 percent of global trafficking profits despite the fact that they make up only 11 percent of global trafficking victims.⁴⁷

In all cases, profits are distributed between the recruiter, the transporter, and the exploiter (though in theory the recruiter and transporter could be the same person). Though little data exists, it is very likely that the exploiter retains the bulk of these profits as his/her role is ongoing for as long as the victim remains enslaved or indentured.

Recruitment often involves deception practices. The recruiter gains the victim's trust and offers to arrange a move to a new place with greater opportunities and a better life. Since the operation hinges on gaining trust, often traffickers are of the same nationality as the victim.⁴⁸ This complicates the analysis of profit flows. A small percentage of the profits are likely to trickle into the destination economy through traffickers' everyday expenditures. Another percentage is likely to flow back to the traffickers' home countries in the form of remittances and visits. The majority of the profits, however, end up in the realm of organized criminal activities such as money laundering, drug trafficking, forging of documents, and bribing government officials.⁴⁹

Human Trafficking and the Developing World

Developing countries have a complex causal relationship with human trafficking. Almost all victims originate in developing countries; many victims—Belser estimates as much as 89 percent—are destined for developing countries, and many of the traffickers are citizens of developing countries. Furthermore, profits from human trafficking are illegally acquired and thus impossible to trace. As a result, it is extremely difficult to determine quantitatively how this criminal market affects developing countries. On the other hand, one could make a statement as to the overall benefit or harm by asking whether the profits that flow into developing countries outweigh the economic, political, and social damage that is done. This report finds that damage in the areas of labor and production, public health, state capacity, and social structure vastly outweigh the benefits of any illegally generated profits as a result of human trafficking.

⁴⁷ *Ibid.*

⁴⁸ UNODC, "The Globalization of Crime: A Transnational Organized Crime Threat Assessment," p. 40.

⁴⁹ U.S. Department of State, *Trafficking in Persons Report*, June 2006: 10-14, accessed October 20, 2010, <http://www.state.gov/documents/organization/66086.pdf>.

First, in terms of labor and production, human trafficking damages both the country of origin and the destination. With every person that is trafficked out, the country of origin loses production capacity, reducing potential GDP. In the destination country, forced labor depresses wages and, in instances of child labor, denies access to education which will harm economic development long into the future.⁵⁰

Second, victims of human trafficking often suffer brutal and traumatic conditions. Forced prostitution can lead to sexually transmitted diseases including HIV/AIDS. Other victims suffer psychological disorders like post-traumatic stress disorder, as well as communicable diseases like tuberculosis.⁵¹ Aside from the obvious moral and human rights argument, dealing with these public health issues comes at great financial cost to developing economies.

Third, human trafficking can take children from their parents or parents from their children. This breakdown of social structures can be very costly for a country's development. A child who loses a parent often must quit school and work in order to help support the family. This reduces future economic opportunity for both the child in question and his or her family.⁵² The trafficking of children constitutes a direct removal from a country's opportunity for future development, not to mention the loss of education and chance for advancement of the child.

Finally, similar to drug trafficking, human trafficking erodes the capacity of the state. Human traffickers bribe law enforcement, immigration, and judicial officials in both origin and destination countries.⁵³ Over the long term, corruption destroys the trust that citizens have in their institutions and government, especially if this corruption is facilitating the loss of friends and family to human traffickers. A state being only as strong as its ability to protect its citizens, it is not hard to see how a state whose officials are directly contributing to the loss of citizens would be in jeopardy.

This becomes a vicious cycle, with traffickers damaging the state structure and economy, then using these poor conditions to facilitate more trafficking. In other words, traffickers who use economic incentives to deceive victims and who need corrupt officials in order to transfer these victims, have a strong incentive to *prevent* their profits from flowing into the official economies of developing countries.

⁵⁰ *Ibid.*

⁵¹ *Ibid.*

⁵² *Ibid.*

⁵³ *Ibid.*

IV. The Illicit Wildlife Trade

Overview

The global illicit trade in exotic animals and animal products inflicts harm on developing countries in a variety of ways. Used for food, in commercial products, traditional Chinese medicine, or as personal pets, the wildlife trade is driven by high demand in a multitude of activities in a multitude of countries.

The most obvious effects of the trade are reflected in global biodiversity. The number of African elephants plummeted from 1.2 million in the 1970's to less than 500,000 today.⁵⁴ The tiger population in India, historically home to over half the world's tigers, has halved from 3,642 in 2002 to 1,411 in 2008;⁵⁵ and ninety percent of the global rhino population has been wiped out by illegal trafficking since 1970, leaving only 16,000 today.⁵⁶ Furthermore, there is a strong argument to be made that this ecological damage, while tragic and morally reprehensible, is trumped by the economic and structural damage imposed on already weak developing states.

Estimated Value of the Illicit Wildlife Trade

In 2005, TRAFFIC Europe estimated that the total legal trade in wildlife (not including fish and timber which are discussed in separate sections of this report) was worth €17.2 billion, equal to \$22.8 billion.⁵⁷ Other estimates list the legal trade at \$25 billion.⁵⁸ Illegal trade is estimated to be around one-third of the legal trade,⁵⁹ which would set it at a range between \$7.6 and \$8.3 billion. This is reasonably close to the estimate of \$10 billion cited by the Coalition Against Wildlife Trafficking (CAWT), an organization supported by the U.S. State Department. However, CAWT director, Hollis Summers,⁶⁰ along with officials of the United Nations Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)⁶¹ are careful to point out that, regarding the illicit wildlife trade, countries' self-reported data can be unreliable. With the challenges of data-collection duly noted, this report assumes a range of \$7.8 to \$10 billion for the value of the global illicit wildlife trade.

⁵⁴ "Wildlife Trade: Elephant Ivory Trade," *World Wildlife Fund*, accessed October 7, 2010, <http://www.worldwildlife.org/what/globalmarkets/wildlifetrade/faqs-elephant.html>.

⁵⁵ Dhar, Aarti, "Over half of tigers lost in 5 years," *The Hindu*, February 18, 2008, accessed October 7, 2010, <http://www.hindu.com/2008/02/13/stories/2008021357240100.htm>.

⁵⁶ "Wildlife Trade: Rhino Trade," *World Wildlife Fund*, accessed October 7, 2010, <http://www.worldwildlife.org/what/globalmarkets/wildlifetrade/faqs-rhino.html>.

⁵⁷ Engler, Maylynn and Rob Parry-Jones, "Opportunity or Threat: The Role of the European Union in Global Wildlife Trade," *TRAFFIC Europe*, June 2007: Table 1, p. 10.

⁵⁸ Colombo, Francesca, "Animal Trafficking – A Cruel Billion-Dollar Business," *Inter Press Service*, September 6, 2003, accessed October 11, 2010, <http://www.commondreams.org/cgi-bin/print.cgi?file=/headlines03/0906-06.htm>.

⁵⁹ *Ibid.*

⁶⁰ Interview with Hollis Summers, CAWT Director, June 12, 2009.

⁶¹ Interview with John Caldwell, CITES Database Manager, June 16, 2009.

Analyzing the Flow of Illicit Wildlife

According to UNODC, Sub-Saharan Africa and South-East Asia are the major supply regions for several of the largest illicit animal markets, including elephant ivory, rhino horn, and tiger parts. The fact that these species are unique to these regions works hand-in-hand with regional weaknesses in the areas of law enforcement, border enforcement, and economic opportunity to facilitate illicit trade.⁶²

On the demand side, it is broadly accepted that the largest consumers of illegal wildlife are China, the United States, and the European Union. The most lucrative of animals and animal products include elephant ivory, tiger bones, Tibetan antelope, bear gallbladders, rhino horns, and exotic birds and reptiles. Generally, demand for animal products falls into three categories: traditional Chinese medicine (TCM), commercial products, and exotic pets.

TCM accounts for a great deal of demand in China, where buyers will pay as much as \$2,500 for a single rhino horn, believed to possess vast medicinal qualities.⁶³ Tigers, pangolins, civets, and bears are also believed to have medicinal value.⁶⁴

Commercial products have long provided the demand for illegal ivory elephant tusks. Coveted clothing and accessories also account for some of the demand in other animals. Tibetan antelope are killed for their furs which are then turned into \$15,000 shawls. Crocodiles and various big cats are hunted to produce clothing apparel and accessories. Because of the rarity and nature of such products, the United States and the European Union are the primary sources of demand. The same is true of illegal exotic pets.

Exotic birds, reptiles, and primates are coveted by those looking for unique pets or prized collector items, and illegal animal traffickers are happy to supply them. Whether buyers in the United States and the European Union know the trade is illegal or not, web sites offering such animals have made purchasing illegal species quite easy. According to Chris Cutter at the International Fund for Animal Welfare, "This has been a problem for a long time but it's becoming worse because of the internet opening up new markets . . ." ⁶⁵ As with all commodities, the rarer the animal, the higher the price. With only 960 Lear Macaws remaining in the world,⁶⁶ each rare parrot has a market value of \$90,000.⁶⁷ This means that, even if the market price did not rise with a reduction in supply, there could be as much as \$86 million of potential illegal profit in the current stock of Lear Macaws.

⁶² UNODC, "The Globalization of Crime: A Transnational Organized Crime Threat Assessment," 2010: p. 151-52.

⁶³ Myburgh, Johannes, "South Africa launches crime unit to battle rhino poaching," AFP, October 5, 2010, accessed October 6, 2010, http://www.google.com/hostednews/afp/article/ALeqM5hmvPqQ5GeBU6VsVclOAK_CyR9aBg?docId=CNG.29fa01d16fcde30cb5d406b0b6b63005.9e1.

⁶⁴ List: The World's Worst Poaching Markets. *Foreign Policy*. February 2008. http://www.foreignpolicy.com/story/cms.php?story_id=4211.

⁶⁵ Metz, Rachel. "Illegal Animal Trade Goes Online," *Wired*, August 18, 2005, accessed October 7, 2010, <http://www.wired.com/techbiz/media/news/2005/08/68561>.

⁶⁶ "Lear's Macaw no longer critically endangered," *Wildlife Extra*, June 10, 2009, accessed October 7, 2010, <http://www.wildlifeextra.com/go/news/lears-macaw009.html#cr>.

⁶⁷ Begley, Sharon, "Extinction Trade: Endangered animals are the new blood diamonds as militias and warlords use poaching to fund death," *Newsweek*, March 1, 2008, accessed October 7, 2010, <http://www.newsweek.com/id/117875/output/print>.

Profit Distribution

The illicit transport and sale of wildlife can be a complex process involving a network of people. The first step is to recruit and pay poachers. Poaching often involves an extended period of time in the wild, so poachers also need vehicles, supplies, weapons, and training (depending on if the animal is to be captured alive or killed and processed). Next, the goods must be smuggled out of the source country and into the destination country, often crossing multiple borders. Smuggling can be extremely complex and time-consuming, thus requiring significant expertise and financial resources. Wildlife smugglers frequently resort to bribing officials or rebel groups for permission to cross borders, or to paying organized crime groups for the use of their established routes or methods.⁶⁸

When they reach their destinations, these goods draw huge profits which, for criminals, justify the risks and costs associated with the trade. A single tiger skin will draw as much as \$10,000 in parts of China. In a pattern that emerges time and again with organized crime, most of the profits go to wealthy individuals and criminal organizations behind the scenes, while the individual poachers and mules—people paid to transport goods in their luggage or on their person—make very little.⁶⁹

Wildlife Trafficking and the Developing World

The negative effects of the illicit wildlife trade are felt by developing source countries, consumer countries (developing and developed), and the international community at large. In many source countries (particularly in Africa), the unique ecology and exotic wildlife draw tourists from all over the world. Though it is difficult to measure, there is no doubt that the loss of this wildlife negatively impacts the tourism industries, and thus the official economies of the countries in question. Furthermore, similar to other illicit markets, wildlife traffickers profit from a state's weakness in the areas of territory control, governance, and economic opportunity. In this context it is easy to entice people to become poachers, to operate in territories with little government presence, and to bribe customs officials in order to facilitate smuggling. Because of this, traffickers have a vested interest in actively preventing a source country from developing economically and structurally.

For consumer countries there are health threats to be considered. According to the Government Accountability Office and the Center for Disease Control, 75 percent of emerging diseases reach humans through animals.⁷⁰ The illicit cross-border flow of wildlife severely undermines national health bodies' attempts to monitor potentially dangerous species. Avian Influenza (H5N1), Severe Acute Respiratory Syndrome (SARS), Heartwater Disease, and Monkeypox are primary examples

⁶⁸ Sellar, John M., "International Illicit Trafficking in Wildlife," *The Police Chief* 74, no. 6 (June 6, 2007), accessed October 21, 2010, http://www.policechiefmagazine.org/magazine/index.cfm?fuseaction=print_display&article_id=1203&issue_id=62007.

⁶⁹ *Ibid.*

⁷⁰ Wyler, Liana Sun and Pervaze A. Sheikh "International Illegal Trade in Wildlife: Threats and U.S. Policy," *Congressional Research Service*, February 2, 2009, p. 12.

of deadly diseases facilitated by illicit animal trafficking. The SARS outbreak is believed to have originated in China when an infected civet came into contact with humans. African tortoises can carry ticks infected with Heartwater Disease. Avian Flu is of course carried primarily by wild birds.⁷¹ Diseases like these can wreak havoc on economies and ultimately on populations if they reach pandemic levels.

Finally, destabilizing elements within states are known to use profits from wildlife trafficking in order to fund military operations. Since 2003 Sudan's Janjaweed militia has slaughtered hundreds of elephants in neighboring Chad's Zakouma National Park, using the money from the traffic to purchase AK-47's and other arms to be used in the killing fields of Darfur.⁷² Furthermore, according to Interpol and the U.S. State Department, Somali warlords and two Islamic extremist groups in India with ties to Al Qaeda, Harakat ul-Jihad-I-Islami-Bangladesh (HUJI-B) and Jamaatul Mujahedin Bangladesh (JMB), have sponsored illegal elephant and rhino poaching.⁷³ This development has implications not only for developing countries but also for international security.

⁷¹ *Ibid.*

⁷² Begley, Sharon, 2010.

⁷³ Wylter, Liana Sun and Pervaze A. Sheikh, p. 19.

V. Counterfeiting

Overview

If imitation is the sincerest form of flattery, counterfeiting is the criminal form. Whether the item being counterfeited is a \$100 bill, a Gucci handbag, or a Kalashnikov assault rifle, the criminal's basic goal is to profit from the reputation of an established and trusted name or brand. In some cases, as with counterfeit currency, the goal is to directly deceive the consumer. No intelligent human being would knowingly accept a fake, and thus worthless, \$100 bill. In other cases, deception is not as critical. A person may knowingly choose to buy a fake Rolex watch because they want the status associated with the brand, but they do not want (or can't afford) to pay the price of a real Rolex. In these cases, the imitation must be good enough to resemble the original, but it need not meet the standards of close examination and quality.

Following the lead of the Organization for Economic Cooperation and Development (OECD), this report defines counterfeiting and piracy as the infringement "of trademarks, copyrights, patents and design rights, to the extent that they involve physical products."⁷⁴ Under this distinction, the sale of an unofficial DVD movie would be counted, but the illegal download of the same movie from the internet would not.

This report examines the global scope and effects of counterfeiting. What goods are being counterfeited? Where are these fakes produced? Where are they sold? Who is profiting? Who is harmed? A brand is only as strong as its reputation and there is no doubt that low quality counterfeits tarnish the reputations of the brands being copied. But these brands are mostly based in the developed world, and the people profiting from counterfeiting are mostly in developing countries. Does this make counterfeiting the great equalizer, some sort of global economic Robin Hood taking money from the wealthy and distributing it to the poor? On the surface this may seem to be the case, but a closer analysis reveals counterfeiting to be an exploitative and dangerous practice that preys on the world's impoverished and pads the pockets of a criminal few.

Estimated Global Scope of Counterfeiting

This section will begin by looking at the global counterfeiting market as a whole, followed by a brief discussion of some of the individual counterfeited products. The size of the global trade in counterfeits can be expressed in one of two ways. The companies whose brands are copied measure counterfeiting according to how much they lose as a result of the practice. In his book, *Illicit: How Smugglers, Traffickers, and Copycats are Hijacking the Global Economy*, Moisés Naím cites an Interpol figure that estimates global commercial losses due to counterfeiting at

⁷⁴ OECD, "Magnitude of Counterfeiting and Piracy of Tangible Products: An Update," November 2009, accessed October 25, 2010, <http://www.oecd.org/dataoecd/57/27/44088872.pdf>.

around \$500 billion.⁷⁵ This measurement is helpful in that it demonstrates the kind of damage that counterfeiting can do. On the other hand, the fact that companies lose \$500 billion due to counterfeiting does not necessarily mean that counterfeiting *generates* \$500 billion. When a person buys a fake Rolex instead of a real one, for example, Rolex might count that as a \$3,000 loss. However, the counterfeit itself might only cost \$100, meaning that the counterfeiter would have to sell 30 watches to generate the same amount that Rolex loses on each one.⁷⁶

The second way to measure counterfeiting is to estimate profits rather than losses. In other words, regardless of how much money companies like Rolex lose, how much profit does the counterfeit market actually generate? This is a better measurement for the purposes of this report because this is the number that would potentially contribute to GDP in developing countries. Unfortunately, no studies have yet been able to adequately estimate the scale of counterfeiting. One report, published in 2009 by OECD, suggested that the annual value of internationally traded counterfeit and pirated goods could be around \$250 billion based on seizures and intercepted shipments.⁷⁷ A critical problem with this number is that the report assumes a 0.5 percent interception rate while, in reality, the actual rate is unknown and probably varies greatly according to the type of merchandise and port of entry. Nevertheless this estimate remains one of very few attempts to quantify the scale of counterfeiting and will thus be the number used in this analysis. It is important to note that this figure does not include the value of goods produced and sold domestically. China, for example, one of the world's biggest producers of counterfeits, is also one of the biggest consumers, with around \$16 billion in counterfeits sold in the country every year.⁷⁸

Counterfeit Pharmaceutical Products

According to a 2008 ABC News report, the World Health Organization estimates annual counterfeit drug sales at around \$35 to \$40 billion.⁷⁹ These drugs can be very dangerous for consumers as they often lack the active ingredients that make up the real drugs, or in some cases they even contain toxic substances.⁸⁰ Counterfeit drug consumption is especially problematic in the developing countries of Africa, Southeast Asia, and Latin America where consumer protection systems are slow and inefficient and where people struggle to afford high quality medicines.⁸¹ China and India are believed to be the largest producers of counterfeit medicine.⁸²

⁷⁵ Naím, Moisés, *Illicit: How Smugglers, Traffickers, and Copycats are Hijacking the Global Economy* (New York: Anchor Books, 2006), 112.

⁷⁶ This example assumes that one customer is choosing between a fake Rolex and a real Rolex. In reality this is an unlikely scenario because the person who buys a fake Rolex could probably never afford a real one, and the person who buys a real Rolex would never be seen wearing a fake one. This is just one of the many assumptions which make the measurement of loss an imperfect science.

⁷⁷ OECD "Magnitude of Counterfeiting and Piracy of Tangible Products: An Update."

⁷⁸ Naím, 113.

⁷⁹ Thomas, Pierre, Ted Winner, and Theresa Cook, "Counterfeit Drugs, Real Problems," *ABC News*, September 14, 2008, accessed November 22, 2010, <http://abcnews.go.com/print?id=5796287>.

⁸⁰ *Ibid.*

⁸¹ Harris, Julian, Philip Stevens, and Julian Morris, "Keeping it Real: Combating the spread of fake drugs in poor countries," *International Policy Network*, May 2009, accessed November 22, 2010, http://www.policynetwork.net/sites/default/files/keeping_it_real_2009.pdf.

⁸² *Ibid.*, 5-6.

Counterfeit Electronics

It is estimated that “between 5 and 20 percent of electronic components in distributors’ supply chains are probably counterfeit.”⁸³ This amounts to losses of as much as \$100 billion per year for the global electronics industry. As with the Rolex example, it is important to distinguish between estimated losses and the actual value of the counterfeit market. Assuming the counterfeit electronics industry follows overall counterfeiting trends, it would be safe to estimate its actual value at around \$50 billion. Around 70 percent of counterfeit electronics are produced in China.

Counterfeit Cigarettes

A Euromonitor International report from July 2010 estimates that 520 billion cigarettes are traded at a value of around \$20 billion every year accounting for government losses of around \$40 billion due to lost tax revenue.⁸⁴ It is important to note that these figures refer to the total illicit trade which is composed of large-scale smuggling (70 percent), bootlegging (13 percent), counterfeiting (13 percent), and internet sales (4 percent).⁸⁵ Based on these estimates, this report calculates the global value of counterfeit cigarettes at approximately \$2.6 billion per year. Primary suppliers of illicit cigarettes include China, Russia, Ukraine, and Paraguay.⁸⁶ Major illicit destinations include both developed and developing destinations like the United States, Canada, the United Kingdom, and Germany, as well as Brazil, India, Pakistan, Algeria, and South Africa.⁸⁷

Analyzing the Flows of Counterfeit Currency and Other Goods

Currency

From U.S. Dollars to Euros, Rubles to Rupees, and Yen to Yuan, the counterfeiting of currency occurs worldwide. Because they are trusted to hold their value, U.S. dollars are circulated worldwide, making them especially attractive to counterfeiters. In this way, dollars can be likened to a trusted brand, known for quality and reliability. A 2006 report by the U.S. Treasury Department lists Colombia, Peru, the Russian Caucasus, Bulgaria, and North Korea as major producing countries of counterfeit dollars.⁸⁸ This seems to indicate a strong connection between currency counterfeiting and transnational organized crime, as all the countries listed are known to have a powerful organized criminal and trafficking presence.

Fake euros tend to circulate less around the world, and are found mainly in the euro zone. As a result, the overall rate of euro forgery is believed to be much lower than that of dollars. Based on

⁸³ Sangani, Kris, “The global trade in counterfeit consumer electronics,” *The Institute of Engineering and Technology*, May 10, 2010, accessed November 22, 2010, <http://kn.theiet.org/magazine/issues/1007/buyer-beware-1007.cfm>.

⁸⁴ “Illicit Trade in Tobacco Products – A World View,” *Euromonitor International*, July 2010, accessed November 22, 2010, <http://www.portal.euromonitor.com.proxyau.wrlc.org/Portal/accessPDF.ashx?c=63\PDF\&f=F-156950-18366763.pdf&code=XseURih662DoCtnbwbqEv%2bJiiR4%3d>.

⁸⁵ *Ibid.*, 12.

⁸⁶ *Ibid.*, 16.

⁸⁷ *Ibid.*

⁸⁸ United States Treasury Department, “The Use and Counterfeiting of United States Currency Abroad, Part 3,” September 2006, accessed October 27, 2010, <http://www.federalreserve.gov/boarddocs/RptCongress/counterfeit/counterfeit2006.pdf>.

seizures, it is believed that 70 percent of counterfeit euros are produced by only three gangs, “all based in Italy and the Balkans.”⁸⁹

Relative to overall currency circulation, the counterfeiting of dollars and euros is not a huge problem. The U.S. Secret Service estimates, for example, that in 2005, of the \$760 billion in U.S. banknotes circulating worldwide, only \$1 for every \$12,400 passed was counterfeit. While this does add up to \$61 million in counterfeit currency passed (\$55.2 million of which was passed in the United States), the ratio of counterfeit to real currency would have to be much higher to inflict real damage on the reputation and strength of the U.S. dollar.⁹⁰

In India, on the other hand, counterfeit rupees are becoming a cause for concern. Fake rupees are believed to be printed in Pakistan and then channeled through Dhaka, Bangladesh and Bangkok, Thailand into Kathmandu. Indian authorities estimate that as many as 400 million fake rupee notes with a value of some \$9 million are in circulation in the state of Uttar Pradesh alone, and fake currency dealers in Nepal projected in 2009 that, “by 2010 nearly 10,000 crores (\$2.2 billion) of fake currency will be in circulation in India.”⁹¹ This heavy inflow of fake currency has led some to speculate that Pakistani elements are deliberately trying to “create confusion and destabilize India.”⁹²

Counterfeit Goods

With counterfeit goods ranging from cigarettes to apparel to industrial products to medicine, all produced and sold in a variety of places, it is nearly impossible to track and measure financial flows associated with this trade. The only thing that is certain is that, in general, counterfeits are produced mostly in developing countries and consumed all over the world. China is the world’s major source country, but there is also known counterfeit production in Taiwan, Vietnam, the Philippines, Malaysia, India, Russia and other former Soviet Republics, as well as countries in Latin America and Africa.⁹³ Legitimate brands are partly to blame, as manufacturers have outsourced much of their production to these countries in order to cut costs. As a result, these legitimate companies have put the technology and know-how in place, leading to the increased volume and improved quality of counterfeits.⁹⁴

Counterfeit goods are then shipped, often through free trade zones like Dubai, to their final destinations in the United States, the European Union, or anywhere there is demand. Shipping

⁸⁹ Joyner, James, “Euro Catching Up to Dollar in Counterfeiting Game,” *Atlantic Council*, July 7, 2009, accessed October 22, 2010, <http://www.acus.org/print/4802>.

⁹⁰ United States Treasury Department, “The Use and Counterfeiting of United States Currency Abroad, Part 3,” p. 47.

⁹¹ Ghosh, Nirmal, “Bogus rupees smuggled in via Bangkok, Nepal,” *Asia News Network*, January 30, 2009, accessed October 25, 2010, <http://www.asianewsnet.net/news.php?sec=1&id=3689>.

⁹² “Pak terrorists using Malaysia as transit point for fake rupees,” *OneIndia*, January 13, 2009, accessed October 27, 2010, <http://news.oneindia.in/2009/01/13/pak-terrorists-using-malaysia-as-transit-point-for-fake-rupe.html>.

⁹³ UNODC, “The Globalization of Crime: A Transnational Organized Crime Threat Assessment,” 2010: p. 179.

⁹⁴ *Ibid.*

through free trade zones allows the origins of the goods to be disguised, and also provides a chance for “unbranded products to be decorated with the appropriate logos close to the destination market.”⁹⁵ Once the goods get through customs at their destination they are shipped to a warehouse for “storing, repackaging and distribution.”⁹⁶ This provides another opportunity for labels to be put on anything that has not yet been branded.

Profit Distribution

Counterfeiting is an appealing market for criminals because cost-cutting measures are built into every phase from design and marketing, to manufacturing, transportation, and distribution. Ultimately, this enables the counterfeit dealer to increase his profit margin while keeping prices competitive. First, there are no costs associated with design and marketing because counterfeiters rely on the design and popularity of a pre-existing brand. Second, manufacturing costs can be controlled by using sweatshop labor and by avoiding the costs associated with meeting environmental and safety standards. Third, transportation costs are reduced by avoiding import duties through smuggling or customs fraud. Finally, distribution costs can be avoided by ignoring sales taxes and using cheap migrant labor to distribute the goods.⁹⁷

From start to finish, it is clear that the massive profits generated by counterfeiting are not distributed evenly to all the people involved in the process. Children and migrants laboring in this business are commonly subjected to long hours, inhumane conditions, and negligible pay. Once again, the lion's share of the profits goes to the powerful crime syndicates and sometimes terrorist organizations behind the scenes. As the OECD explains, the counterfeiters are “mafias, triads and other criminal groups,” which are, “spread around the world, and commonly also deal in drugs, prostitution, human trafficking, money laundering, arms dealing and corruption.”⁹⁸ Growing evidence indicates that counterfeiting is used to fund terrorist activity. The 2004 Madrid train bombings, for example, were carried out by a group that sold pirated CDs to fund their activities.⁹⁹

Counterfeiting and the Developing World

Counterfeiting can do immense damage to developing countries where goods are produced, consumed, or where counterfeit currency circulates. Furthermore, the profits of counterfeiting are known to bolster organized crime and terrorist groups who pose a real threat to security in developed and developing countries alike.

⁹⁵ *Ibid.*

⁹⁶ *Ibid.*

⁹⁷ *Ibid.*, 176.

⁹⁸ Haie-Fayle, Linda and Wolfgang Hubner, “Counterfeiting and Piracy: Fakes, facts and figures,” OECD Observer, July 2007, accessed October 29, 2010, <http://www.oecdobserver.org/news/fullstory.php/aid/2278/>.

⁹⁹ “Counterfeit goods are linked to terror groups,” *International Herald Tribune*, February 12, 2007, accessed October 29, 2010, <http://www.nytimes.com/2007/02/12/business/worldbusiness/12iht-fake.4569452.html>.

The effects of counterfeit currency are mostly felt on the micro level when it is circulated from person to person. If the fake money is ever discovered and seized by the authorities, the holder is not reimbursed, thus losing income in the amount printed on the fake bill. On the macro level, flooding an economy with fake currency can cause inflation and devalue the currency being counterfeited. This is why India is worried about the inflow of fake rupees, possibly from Pakistan.

Though the production of counterfeit goods most obviously affects legitimate brands in developed countries, it can also do significant damage in the developing countries where production occurs. First, there is the obvious loss of tax revenue, as well as the underpaying of workers which stunts development and economic vitality. Even more troubling, however, is the fact that counterfeit goods producers have no incentive to meet labor or environmental standards. This opens the door to issues such as child labor and dangerous working conditions, as well as environmentally dirty production which could threaten the community at large.

Counterfeit goods can be equally damaging for consumer countries. Tax evasion and poor workers' conditions mirror the issues faced by producer countries. Furthermore, the counterfeit products themselves can be dangerous. Counterfeit toys can be painted with lead paint or pose a choking hazard; counterfeit auto parts are not subject to safety testing; counterfeit batteries and cigarette lighters have been known to explode; and, possibly the biggest threat, counterfeit medicines either lack an active ingredient or "contain a substandard amount, allowing the target microbes to develop resistance."¹⁰⁰

Fundamentally, counterfeiting hinders long term economic development and, like other criminal enterprises, empowers the forces profiting from state weakness. The production of counterfeit goods occurs primarily in countries which lack the capacity or political will to regulate the industrial sector. Some might argue that, in places like China, counterfeiting employs people, produces goods, and benefits the economy. This report, however, holds the position that any short term benefits come at the substantial cost of human rights and the development of strong, internationally reputable Chinese brands. In fact, counterfeiting benefits mainly those criminal elements which put personal wealth ahead of state stability and social well-being. In short, for any developing country, counterfeiting is an unsustainable and potentially dangerous enterprise.

¹⁰⁰ UNODC, "The Globalization of Crime: A Transnational Organized Crime Threat Assessment," 2010: p. 173.

VI. The Illicit Trade of Human Organs

Overview

Decried as “neo-cannibalism” by leading experts in the field,¹⁰¹ the illicit trade in human organs reveals the dark complexities of humanity, medical ethics, and law in the global economy. The practice of human organ trafficking is fueled by increasing demand and supplied by donors coerced through force, the threat of force, or the promise of payment. Though it is primarily centered on kidneys, the human organ trade also includes the sale of livers, hearts, pancreases, lungs, corneas and human tissue.

Unfortunately, voluntary organ donation remains insufficient and most countries fall dramatically short of meeting demand. A 2008 *Economist* article stated that, while 30,000 transplants are performed yearly in the United States, 100,000 people remain on waiting lists, “with 4,400 names being added each month.”¹⁰² As a result of this shortage, and in spite of laws which exist in almost all countries prohibiting the sale of one’s organs, a thriving illicit organ trade has risen to supply demand.

Estimated Value of the Illicit Organ Trade

The kidney is the most commonly transplanted organ, with a global estimate of 68,500 transplants performed per year. This is followed by the liver (20,100), heart (5,200), lung (3,250), and pancreas (2,800).¹⁰³ While there is a distinct shortage of data on the price and frequency of illegal organ transplants, experts have estimated that globally, 5 to 10 percent of kidney transplants are a result of trafficking.¹⁰⁴ This means that illegal trafficking accounts for some 3,400 to 6,800 kidney transplants per year. The \$50,000 broker’s fee plus medical and transportation expenses bring the price of each transplant to approximately \$150,000, meaning the retail value of the global illicit kidney market would range from \$514 million to \$1 billion per year.¹⁰⁵

With 20,100 transplants per year, the partial liver transplant is the second most common procedure. There are no estimates as to how many of these include illegally acquired partial livers, however, according to a 2009 Reuters report, “the World Health Organization estimates about 10 percent of all organ transplants worldwide involve unacceptable or illegal transplants.”¹⁰⁶ Therefore, using

¹⁰¹ Scheper-Hughes, Nancy and Lawrence Cohen, “Extreme Research,” *Berkeley Magazine* (Summer 1999), accessed August 19, 2010, http://berkeley.edu/news/magazine/summer_99/feature_darkness_scheper.html.

¹⁰² “Organ transplants: The gap between supply and demand,” *The Economist* (October 9, 2008), accessed July 17, 2009, http://www.economist.com/node/12380981?story_id=12380981.

¹⁰³ Dr. Luc Noel, MD. Coordinator of the Clinical Procedures team, World Health Organization (July 29, 2009). Email correspondence.

¹⁰⁴ Caplan, Arthur, Beatriz Dominguez-Gil, Rafael Matesanz, and Carmen Prior, “Trafficking in organs tissues and cells and trafficking in human beings for the purpose of the removal of organs,” *Council of Europe/United Nations Study*, 2009, p. 58, accessed December 15, 2010, http://www.coe.int/t/dghl/monitoring/trafficking/docs/news/OrganTrafficking_study.pdf.

¹⁰⁵ Interlandi, Jeneen, “Not Just Urban Legend,” *Newsweek*, January 10, 2009, accessed July 8, 2009, <http://www.newsweek.com/id/178873/output/print>.

¹⁰⁶ Kahn, Michael. “Study highlights need for more kidney donations,” *Thomson Reuters*, 18 February 2010, accessed August 18, 2010, <http://www.reuters.com/article/idUSLI302791>.

a conservative range of 5 to 10 percent it can be estimated that a yearly range of 1,000 to 2,000 partial liver transplants involve illegally acquired livers. According to a 2007 article in the Pittsburgh Tribune-Review, a liver transplant could be purchased, “within 90 days at a South American hospital for about \$100,000.”¹⁰⁷ At this rate, the global illicit liver market would range from around \$100 to \$200 million.

Combining these two markets, this report estimates the global retail value of the illicit organ trade at between \$600 million and \$1.2 billion per year. This estimate does not include estimates for heart, lung, or pancreas transplantation, for which data are insufficient.

Analyzing the Flow of Illicit Organs

As with other forms of trafficking, the illegal kidney trade generally “flows from poor, underdeveloped countries to rich, developed ones.”¹⁰⁸ Common countries of origin for donors include China, India, the Philippines, Turkey, Egypt, Moldova, Romania, Brazil, Bolivia, and Peru. Buyers are known to come from developed countries including the United States, Canada, Japan, Italy, and Australia, as well as the wealthy classes from developing countries such as Saudi Arabia, Israel, and Oman.¹⁰⁹

Recently China, Pakistan, and the Philippines have taken steps to prohibit ‘transplant tourism,’ which the United Network for Organ Sharing defines as “the purchase of a transplant organ abroad that includes access to an organ while bypassing laws, rules, or processes of any or all countries involved.”¹¹⁰ These efforts have dramatically slowed the practice of open transplant tourism, but experts believe that the practice continues as “an underground criminal activity.”¹¹¹

Profit Distribution

In many ways, the illicit organ trade is the perfect criminal enterprise. When viewed from the perspective of the desperate buyer, there is a strong case to be made in *favor* of organ trafficking. The gap between global demand and the supply of licit organs is so vast that illicit donors will be viewed by many as heroes. Unfortunately these heroes, citizens of the world’s most impoverished communities, are more often than not motivated by their own desperation.

¹⁰⁷ Fabregas, Luis. “Transplant ‘tourism’ questioned at medical centers in Colombia,” *Pittsburgh Tribune-Review* (18 February 2007), accessed July 20, 2009, http://www.pittsburghlive.com/x/pittsburghtrib/s_493727.html.

¹⁰⁸ Scheper-Hughes. “Organs Without Borders,” *Foreign Policy* (January 5, 2005) p. 26, accessed August 17, 2010, http://www.foreignpolicy.com/articles/2005/01/05/organs_without_borders.

¹⁰⁹ *Ibid.*

¹¹⁰ Budiani-Saberi, D.A. and F.L. Delmonico. “Organ Trafficking and Transplant Tourism: A Commentary on the Global Realities,” *American Journal of Transplantation* (2008) p. 925-929, accessed August 19, 2010, http://cofs.org/COFS-Publications/Budiani_and_Delmonico-AJT_April_2008.pdf.

¹¹¹ Dr. Luc Noel, MD. Coordinator of the Clinical Procedures team, World Health Organization (29 July 2009). Email correspondence.

This context, where both buyers and sellers are driven by their most basic need for survival, is primed for criminal exploitation. A middleman usually offers a donor around \$5,000 for a kidney or partial liver and often ends up paying less than that. In China, for example, a 19-year-old was offered a little more than \$5,000 for part of his liver. After the surgery, when he approached the middleman for payment, he was beaten and paid a mere \$3,660.¹¹² The middleman then arranges the transplant, charging the buyer approximately \$150,000. This fee will usually cover travel and other expenses, after which the middleman nets around \$50,000.¹¹³

Illicit Organ Trafficking and the Developing World

Organ traffickers operate in the vast chasm that exists between the world's wealthy and the world's poor. In developing countries, economic stagnation and deficiencies in law enforcement combine with increasing globalization and improved communications technology to create the perfect space for this criminal enterprise. The lack of economic opportunity forces people to consider options they might otherwise find dangerous or reprehensible, while inadequate law enforcement enables the traffickers to operate with little fear of being arrested or fined. At the same time, thanks to technological advancements in travel, trade, and communications, traffickers now have access to the major markets in developed countries all over the world. In essence, this allows them to buy an organ at the lowest price from the poorest donor, and sell it to the highest bidder in the richest country.

Though the global shortage has fueled a debate as to whether or not organ sales should be legalized, the practice is currently banned in every country except Iran. This pushes the practice underground which can have serious economic and health-related repercussions. Economically, there is the obvious loss of government revenue due to tax evasion. Everyone from the donor to the middleman to the person performing the transplant has a strong incentive to keep the transaction under cover. Not only would taxes reduce profits, but transparency would also open the door to prosecution. In this way, as with most transnational crime, even what appears to be financial *inflow* to a developing country has very little impact on the official economy, and does little to spur development.

The illicit organ trade can also involve serious health risks for donors and recipients alike. According to Nancy Scheper-Hughes, a leading expert on organ trafficking, "recovery from surgery is much more difficult when you don't have clean water or decent food."¹¹⁴ This is quite often the case for donors in developing countries, even if the transplant is performed in a certified hospital. For

¹¹² Likun, Zuo. "Human organ black market exploiting poverty and hope." The China Post, May 10, 2010, accessed August 17, 2010, <http://www.chinapost.com.tw/print/255889.htm>.

¹¹³ Interlandi, Jeneen, "Not Just Urban Legend," 2009.

¹¹⁴*Ibid.*

the recipients, complications can involve fungal infections, compromised grafts, or tuberculosis, although these risks are probably weighed against the possibility of not getting a transplant at all.¹¹⁵

In short, for the developing world, there are very few redemptive aspects to the illicit organ trade. Donors are paid next-to-nothing relative to the overall trade, while the huge profits of the middlemen disappear into the shadow economy, further promoting the self interest of criminals and others who would profit from poverty and state weakness. Also, the shortage of legitimate donor organs is not only a problem for developed nations. By making human organs available to the highest bidder, traffickers prevent the poor from having access to the organs that they too so desperately need. In these ways human organ trafficking profits from and perpetuates the inequities that exist in the global economic system.

¹¹⁵ Osterweil, Neil, "WTC: Black Market Kidney Surgery Offers No Guarantees," *MedPage Today*, July 26, 2006, accessed November 1, 2010, <http://www.medpagetoday.com/Nephrology/GeneralNephrology/3814>.

VII. The Illicit Trade of Small Arms and Light Weapons

Overview

According to Rachel Stohl, small arms expert and senior analyst at the Center for Defense Information (CDI), small arms and light weapons (SALW) are classified as any weapons that can be carried by one or two people, mounted on a vehicle, or transported by a pack animal. “This classification ranges from machine guns to Stinger missiles and includes rocket-propelled grenades and mortars.”¹¹⁶ As UNODC points out, SALW are unlike many other trafficked goods because weapons are durable goods.¹¹⁷ Once a weapon is produced it can last indefinitely, often passing from person to person and country to country. Many of the weapons distributed to developing countries during the Cold War, for example, are still functional and contribute significantly to insurgencies and armed uprisings.¹¹⁸

In addition to old weapons and stockpiles, new arms are constantly being produced at the rate of around 8 million units per year. In 2004, formal SALW production occurred in 1,249 corporations based in 90 countries around the world.¹¹⁹ Furthermore, informal or “craft” production is on the rise in developing countries from the Darra Adam Khel gun bazaar in northwest Pakistan to Ghana where there are “2,500 small and medium manufacturers that offer perfectly functional copies of modern assault weapons or cheap pistols for six dollars apiece.”¹²⁰

Estimated Value of the Illicit Small Arms Trade

The Small Arms Survey estimates that there are around 900 million SALW in circulation around the world¹²¹ and that the legal international trade in SALW (including parts, accessories, and ammunition) is valued at approximately \$3 billion.¹²² According to UNODC, the illicit market is about 10 to 20 percent of the licit market.¹²³ At this rate, the annual value of the illicit arms trade can be estimated at around \$300 to \$600 million. By contrast, Rachel Stohl cites a 2002 Small Arms Survey estimate of \$1 billion for the illicit trade.¹²⁴ Based on these estimates, this report assumes the value of the illicit trade of SALW to be between \$300 million and \$1 billion.

¹¹⁶ Stohl, Rachel, “Fighting the Illicit Trafficking of Small Arms,” *Center for Defense Information* (13 May 2005), accessed August 12, 2010, <http://www.cdi.org/program/document.cfm?DocumentID=2996>.

¹¹⁷ UNODC, “The Globalization of Crime: A Transnational Organized Crime Threat Assessment,” 2010: p. 129.

¹¹⁸ *Ibid.*

¹¹⁹ Naim, 50-52.

¹²⁰ *Ibid.*

¹²¹ “Weapons and Markets,” Small Arms Survey, accessed November 4, 2010, <http://www.smallarmssurvey.org/weapons-and-markets.html>.

¹²² *Small Arms Survey 2009: Shadows of War* (Geneva: Graduate Institute of International Studies, Oxford University Press, 2009) Table 1.1, p. 12, accessed August 12, 2010, <http://www.smallarmssurvey.org/fileadmin/docs/A-Yearbook/2009/en/Small-Arms-Survey-2009-Chapter-01-0-EN.pdf>.

¹²³ UNODC, “The Globalization of Crime: A Transnational Organized Crime Threat Assessment,” 2010: p. 129.

¹²⁴ Stohl, Rachel.

Analyzing the Flow of Small Arms Trafficking

According to the Small Arms Survey, twelve of the top fifteen manufacturing countries are known to have exported over \$100 million in SALW in a single year. These twelve countries are Austria, Belgium, Brazil, Canada, China, Germany, Italy, Russia, Switzerland, Turkey, United Kingdom, and United States. The remaining three countries—India, North Korea, and Pakistan—manufacture primarily for their domestic markets.¹²⁵ While this is specifically referring to legal weapons transfers, it is very likely that any recently manufactured SALW that find their way into the illicit market probably originated in one of these 15 countries.

Newly manufactured SALW only make up one percent of the total volume in circulation.¹²⁶ This means that the vast majority of weapons have been circulating for years and possibly decades. Many of these weapons can trace their origins back to the end of the Cold War. The dismantling of the Soviet Union and the downsizing of military budgets left many countries in the former Soviet bloc with “large stockpiles of aging, but still functional, arms and ammunition.”¹²⁷ Ukraine, for example, once home to 30 percent of the Soviet military industrial complex, currently holds a stockpile of 7 million small arms as well as larger weapons.¹²⁸ This equates to 54 firearms per active duty soldier,¹²⁹ the largest surplus in the world.

In the highly fluid and technologically connected transnational market, these weapons can be supplied to anyone who demands them. Unlike every other criminal market, demand is located almost exclusively in developing countries. Insurgents from Sri Lanka to the Democratic Republic of Congo (DRC) to Colombia must all acquire their weapons through illicit means. Often, because buyers may lack international currency, weapons are exchanged for natural resources like coltan in DRC, diamonds in Sierra Leone, or cocaine in Colombia.¹³⁰

Profit Distribution

The transfer of SALW from one country to another requires a network of both international traffickers and corrupt government officials. Once a network is established, “traffickers sell their connections, their access to fraudulent paperwork and their transportation services to both insurgent groups and embargoed states.”¹³¹ Many of these traffickers are from countries with large stockpiles, others from unstable regions, and still others from wealthier nations. They often speak several languages and hold several passports.¹³²

¹²⁵ “Industrial Production,” Small Arms Survey, accessed November 4, 2010, <http://www.smallarmssurvey.org/weapons-and-markets/producers/industrial-production.html>.

¹²⁶ UNODC, “The Globalization of Crime: A Transnational Organized Crime Threat Assessment,” 2010: p. 8.

¹²⁷ *Ibid.*, 142.

¹²⁸ *Ibid.*

¹²⁹ *Ibid.*, Fig. 121, p. 131.

¹³⁰ Naím, 56.

¹³¹ UNODC, “The Globalization of Crime: A Transnational Organized Crime Threat Assessment,” 2010: p. 144.

¹³² *Ibid.*, 144.

With any illicit weapons sale, it is virtually impossible to know exactly who is profiting, how much profit is generated, and where the money goes. Traffickers use the global system to their advantage by involving multiple jurisdictions in each transaction. Naím cites an example from the run-up to the Rwandan genocide in which “a French dealer delivered Polish and Israeli weapons to Rwanda by means of a Turks and Caicos company with a Geneva address, an eastern African cargo airline, and an Afghan intermediary representing the Rwandans from his base in Italy.”¹³³ In this way, trafficking networks operate in the transnational space between sovereign states, and profits often disappear into the corresponding shadow economy.

Small Arms and the Developing World

According to a 2006 report entitled “Consequences of the Proliferation and Misuse of Small Arms and Light Weapons,” by the Small Arms Working Group (SAWG), the proliferation of SALW can damage developing countries in a variety of ways.¹³⁴ This damage can be viewed from the point of view of the individual, the state, or the global system as a whole.

It is not difficult to see how SALW proliferation can pose a threat to individuals. In countries like DRC and Sudan these weapons “have been widely used to kill, maim, rape, and forcibly displace”¹³⁵ thousands. Indirectly, SALW can harm people by interfering with the provision of basic services like food assistance, harvesting, and delivery, as well as the delivery of healthcare.¹³⁶ Perhaps more than any other criminal market, an analysis of arms trafficking demonstrates how criminals, driven by profit, can directly threaten the lives and well-being of individual citizens who have no connection to the criminal enterprise.

From a broader perspective, similar to other criminal markets, the illicit trade of SALW can undermine economic development and erode the capacity of the state. Putting weapons in the hands of insurgents and rebels breeds insecurity and instability. In this type of environment, sustainable development is impossible.¹³⁷ Armed groups seek to disrupt transit routes and divert natural resource development for their own purposes.¹³⁸ Faced with an armed insurgency, governments are forced to spend more on defense, diverting funds away from agriculture, education, and healthcare projects.¹³⁹ Furthermore, insecurity often cancels foreign investment, a necessary economic component for many developing countries.¹⁴⁰

¹³³ Naím, 62.

¹³⁴ “Consequences of the Proliferation and Misuse of Small Arms and Light Weapons,” *Small Arms Working Group, Small Arms Fact Sheets* (2006), accessed August 12, 2010, http://www.fas.org/asmp/campaigns/smallarms/sawg/2006factsheets/SAWG_Small_Arms_Fact_Sheets_2006.pdf

¹³⁵ *Ibid.*, 10.

¹³⁶ *Ibid.*, 7.

¹³⁷ *Ibid.*, 8.

¹³⁸ *Ibid.*

¹³⁹ *Ibid.*

¹⁴⁰ *Ibid.*

Finally, it is clear that arms traffickers have little regard for the state and its monopoly over the use of force. As Naím points out, many traffickers “don’t even have a permanent nationality,” making them “in effect, stateless.”¹⁴¹ Outside the boundaries of the state system is a disorderly world where there is no such thing as legitimacy or sovereignty. In this disorderly world, goods are sold to anyone who can afford them, no matter who they are, where they live, or what are their intentions. By selling weapons to insurgents and criminals, arms traffickers contribute to the weakening of states, essentially using disorder in the global system to breed more disorder. In economic terms they are creating their own demand.

¹⁴¹ Naím, 42.

VIII. The Illicit Trade of Diamonds and Colored Gemstones

Overview

The Kimberly Process Certification Scheme (KPCS) was launched in 2003 specifically to combat the trade of conflict diamonds, defined as “rough diamonds used by rebel movements or their allies to finance conflict aimed at undermining legitimate governments.”¹⁴² While this initiative certainly marked a great stride forward, it by no means eliminated the trade in conflict diamonds. In 2006, for example, there were reports that diamonds from Cote d’Ivoire (classified as conflict diamonds) were entering legal markets through Ghana and Mali.¹⁴³

The use of diamonds to fund violent conflict has garnered enormous attention, and deservedly so. However, these “conflict diamonds” are merely one part of a bigger illicit trade which includes any diamonds or colored gemstones which are “stolen or smuggled, undeclared for tax evasion, used for money laundering and other crimes.”¹⁴⁴ Though the violent atrocities associated with conflict diamonds have been condemned the world over, the damage caused by the greater illicit trade can be much more corrosive in nature.

This report looks at the illicit trade within the context of the overall trade (licit and illicit). Where do most of these stones originate? How do they reach the international market? How are the profits distributed? Most importantly, how does the illicit trade of this natural resource help or harm the developing countries where it originates?

Estimated Value of Illicit Trade in Diamonds and Gemstones

Diamonds

A 2000 UN report, *Report of the Panel of Experts in Relation to Sierra Leone*, references “a senior diamond evaluator and trade consultant” who estimated that “20 percent of worldwide trade in rough diamonds is illicit in nature.”¹⁴⁵ The report went on to specify that, “The panel raised this issue in its travels, and the figure was widely accepted as a reasonable estimate.”¹⁴⁶ At the time, the world’s rough diamond production was estimated at \$6.8 billion, which would place the illicit trade in the neighborhood of \$1.4 billion.¹⁴⁷

¹⁴² Smillie, Ian, “Dirty Diamonds: Armed Conflict and the Trade in Rough Diamonds,” *Fafo* report 377 (2002) 1-68, accessed November 11, 2010, <http://www.fafo.no/pub/rapp/377/377.pdf>.

¹⁴³ “The Kimberley Process at Risk,” *Global Witness* (Nov. 2006): 2, accessed July 12, 2009, http://www.globalwitness.org/sites/default/files/import/the_kimberley_process_at_risk.pdf.

¹⁴⁴ Passas, Nikos and Kimberly Jones, “Commodities and Terrorist Financing: Focus on Diamonds,” *European Journal on Criminal Policy and Research* 12, no. 1 (2006): 1-33, accessed November 11, 2010, doi: 10.1007/s10610-006-9006-3.

¹⁴⁵ “Report of the Panel of Experts in Relation to Sierra Leone.” 20 Dec. 2000, Item 147, UN Security Council. accessed Aug. 24, 2009, <http://www.grip.org/bdg/g1831.html>.

¹⁴⁶ *Ibid.*

¹⁴⁷ *Ibid.*, Item 144.

Two significant changes have occurred since the 2000 UN report. First, the value of global diamond production has increased to around \$8.6 billion in 2009.¹⁴⁸ Second, the implementation of the KPCS is likely to have reduced the rate of diamond smuggling from 20 percent to 10 percent, according to diamond expert Ian Smillie.¹⁴⁹ Using these numbers, this report conservatively estimates the current trade in illicit diamonds at \$860 million.

Colored Gemstones

The illicit trade in colored gemstones is similar to the diamond trade but there are two critical differences. The similarities are that they are both gemstones, both mined, have high value per weight unit, are similar sizes, and are easily transported. Also, like diamonds, many gem producing countries are politically unstable and subject to what is believed to be large amounts of smuggling. The first key difference, on the other hand, is the fact that gemstones do not compete with diamonds in terms of value. Donald W. Olson of the U.S. Geological Survey found that in 2008, the global “value of production of natural gemstones other than diamond was estimated to be about \$2 billion.”¹⁵⁰ Secondly, while the KPCS is believed to have slowed the smuggling of diamonds, no such framework exists for gemstones.¹⁵¹

Based on these similarities and differences, and because no published estimates exist for the size of the illicit gemstone trade, this report applies the pre-KPCS diamond rate of 20 percent to colored gemstones. Assuming colored gemstone production is indeed \$2 billion, it can then be estimated that the illicit trade in colored gemstones is around \$400 million.

Analyzing the Flow of Illicit Diamonds and Gemstones

A diamond’s path “from carbon to Cartier”¹⁵² is known as “the diamond pipeline”¹⁵³ and is often known to “involve unsavory characters, acting in their self-interest at the expense of miners’ well-being or regional stability...”¹⁵⁴ In 2008, world diamond production was about 159 million carats and was concentrated in Angola, Botswana, the Democratic Republic of Congo (DRC), Namibia, South Africa, Russia, Australia, Canada, Brazil, and Venezuela.¹⁵⁵ After rough diamonds are mined, they are usually exported to cities like Antwerp, Mumbai, Tel Aviv, New York, or Johannesburg for cutting and polishing. For years, Antwerp was the center of the cutting and polishing world; however, there

¹⁴⁸ “Annual Summary Charts: 2008,” Kimberley Process: Rough Diamond Statistics. Kimberley Process, accessed November 10, 2010, <https://kimberleyprocessstatistics.org/static/pdfs/AnnualCharts/2009Charts.pdf>.

¹⁴⁹ Smillie, Ian. Phone Conversation. July, 2009.

¹⁵⁰ Olson, Donald W., “2008 Minerals Yearbook”, *U.S. Geological Survey*, September 2010, accessed November 10, 2010, <http://minerals.usgs.gov/minerals/pubs/commodity/gemstones/myb1-2008-gemst.pdf>.

¹⁵¹ Harrington, Alexandra R., “Faceting the Future: the Need for and Proposal of the Adoption of a Kimberley Process-Styled Legitimacy Certification System for the Global Gemstone Market,” *Transnational Law & Contemporary Problems* 18, no. 2 (Spring 2009): 353-418, accessed November 11, 2010, <https://www.copyright.com/ccc/basicSearch.do?&operation=go&searchType=0&lastSearch=simple&all=on&titleOrStdNo=1058-1006>.

¹⁵² Passas, Nikos and Kimberly Jones, 9.

¹⁵³ *Ibid.*, 3.

¹⁵⁴ *Ibid.*, 9.

¹⁵⁵ Olson, Donald W., “Gemstones,” *2008 USGS Minerals Yearbook*, p. 29.4, accessed November 10, 2010, <http://minerals.usgs.gov/minerals/pubs/commodity/gemstones/myb1-2008-gemst.pdf>.

has been a recent shift toward China, Thailand, and other Asian locations. Once the diamonds are polished they can be made into jewelry and sold in retail stores around the world.¹⁵⁶

In part three of his series, “The underworld of gemstones,” Thomas Naylor describes the route that takes colored gemstones from the ground to the jewelry store. According to Naylor, “gemstones are dug from the ground, traded locally perhaps several times, moved to wholesale centers to change hands again, resold to cutters, put back into international trade circuits to wind up in the hands of vendors of investment stones or manufacturers of jewelry, then sold to a retail clientele.”¹⁵⁷ Like diamonds, colored gemstones are mainly mined in the developing world. Countries with major gemstone deposits other than diamonds include Afghanistan, Australia, Brazil, Myanmar, Colombia, Kenya, Madagascar, Mexico, Sri Lanka, Tanzania, and Zambia.¹⁵⁸ Of these eleven, only Australia is considered to be a developed country. Naylor cites Bangkok, Thailand as a major location for cutting and wholesaling, with final destinations in New York, Mumbai, Tel Aviv, London, and Geneva.¹⁵⁹

The illicit trade in diamonds and gemstones is likely to follow a very similar path as the licit trade. As Ian Smillie wrote in 2002, “the opaque nature of the industry makes it very difficult to know much about the volume and value of a company’s business, or to distinguish between licit and illicit goods.”¹⁶⁰ Illicit diamonds usually find their way into licit trade through a system of smuggling and/or fraud. For example, diamonds are smuggled from DRC into the Central African Republic (CAR), which has some diamond mining of its own. From CAR the smuggled diamonds are then exported as locally produced diamonds, and from that point on they are considered licit goods “whose origin cannot be determined.”¹⁶¹

Profit Distribution

Though the opacity of the market prevents a comprehensive analysis of profit distribution, there are a few things that can be said about who benefits from the \$1.3 billion illicit diamond and gemstone market. First, it is quite clear that, of all the people along the production pipeline, the artisanal miners in developing countries make the least. In fact, most artisanal miners work for nothing except what they find, usually amounting to “less than a dollar a day.”¹⁶² This dirty and dangerous work often involves child and migrant labor, and mining areas are rife with disease, water pollution, and environmental degradation.¹⁶³

¹⁵⁶ Passas, Nikos and Kimberly Jones, 3.

¹⁵⁷ Naylor, Thomas, “The underworld of gemstones, Part III: hot rocks, cold cash,” *Crime, Law and Social Change* 53, no. 4 (2010): 321, accessed November 11, 2010, doi: 10.1007/s10611-009-9222-0.

¹⁵⁸ Olson, Donald W., 29.5.

¹⁵⁹ Naylor, Thomas, “The underworld of gemstones, Part 1: under the rainbow,” *Crime, Law and Social Change* 52, no. 2 (2010): 131-158, accessed November 11, 2010, doi: 10.1007/s10611-009-9223-z.

¹⁶⁰ Smillie, Ian, 2002, 26.

¹⁶¹ *Ibid.*, 28.

¹⁶² Smillie, Ian, “Background Paper on Micro Development Issues,” *Diamond Development Initiative*, August 2005, accessed November 11, 2010, <http://www.ddiglobal.org/contentDocuments/ddi-micro%20paper%202005-08.pdf>

¹⁶³ *Ibid.*

Artisanal mining is generally informal and unregulated, and the “competitive scramble only serves to drive prices down at the pit level.”¹⁶⁴ This reduces the miners’ profits even further while making business very lucrative for middlemen, known to include “unscrupulous buyers, money launderers, weapons and drug traffickers, and rebel armies.”¹⁶⁵ Because diamonds and gemstones are small, durable, portable, and valuable, they are often “bartered for arms, fuel, or other commodities,” making them “a close equivalent to currency for licit and illicit payments.”¹⁶⁶

From a macroeconomic perspective, it is nearly impossible to know how artisanal diamond and gemstone mining affects developing source countries. On the one hand, poor governance and corruption, weak public institutions, and lack of product information all work to impede governments from maximizing their mining industries.¹⁶⁷ On the other hand, mining does bring some inflow to national economies. Difficult and dangerous employment is economically preferable to no employment at all, and rough stones are often used to “float the purchase and importation of essential goods e.g. flour, rice and powdered milk, which are then sold within the national market for local currency.”¹⁶⁸

Diamonds, Gemstones, and the Developing World

Based on this analysis, there are several conclusions that can be drawn regarding diamonds, colored gemstones, and the developing world. First, conflict diamonds are a significant part of the illicit diamond trade, and have contributed to violence and war in developing countries. Second, artisanal mining in developing countries is high-risk, low-reward work in which basic human rights are violated every day. Third, even if the illicit trade in diamonds and gemstones results in some capital inflow to developing countries, the bulk of the profits go to middlemen, corrupt officials, and western companies for whom development takes a backseat to personal wealth acquisition.

The issue of conflict diamonds has been widely publicized in magazines, academic reports, and Hollywood movies. By now there is little doubt that illicit diamonds were used to fund brutal rebel movements like the Revolutionary United Front (RUF) in Sierra Leone and continue to play a role in the ongoing violence in DRG.¹⁶⁹ Similarly, diamond and gemstone deposits in volatile regions can be used to finance corrupt and repressive regimes.¹⁷⁰

¹⁶⁴ *Ibid.*

¹⁶⁵ *Ibid.*

¹⁶⁶ Passas, Nikos and Kimberly Jones, 9.

¹⁶⁷ Even-Zohar, Chaim, “Background Paper on Macroeconomic Issues,” *Diamond Development Initiative*, August 2005, accessed November 11, 2010, <http://www.ddiglobal.org/contentDocuments/ddi-macro%20paper%202005-08.pdf>.

¹⁶⁸ *Ibid.*

¹⁶⁹ Passas, Nikos and Kimberly Jones, 5-9.

¹⁷⁰ Harrington, Alexandra R., 388.

Diamonds can be mined from two different types of deposits. Kimberlite mining involves primary deposits “that occur in basic volcanic rock.”¹⁷¹ This process is expensive and intrusive, and is usually done “by large companies with extensive investment funding.”¹⁷² As a result, a large proportion of the world’s diamonds is recovered from alluvial deposits.¹⁷³ Alluvial diamonds are “diamonds that have been removed from the primary source (Kimberlite) by natural erosive action ... eventually deposited in a new environment such as a river bed, an ocean floor or a shoreline.”¹⁷⁴

The critical point here is that, unlike Kimberlite mining, alluvial mining can be done by a single person with simple hand tools, a characteristic which has led to the development of a huge informal mining sector.¹⁷⁵ In Africa alone, it is estimated that there are around a million “artisanal alluvial diamond diggers.”¹⁷⁶ From a human rights perspective, this informal mining is especially problematic in developing countries where miners, including children, “subsist on poverty livelihoods” and are exposed to diseases like malaria and HIV/AIDS. In 2009, President Mugabe’s army took control of a mine in Zimbabwe in order to profit from the forced labor of hundreds of children and adults.¹⁷⁷

Smillie describes the situation DRC and Sierra Leone where there is “a concentration of profits in the hands of a small number of dealers and exporters”¹⁷⁸ who re-invest nothing more than “the pittance they pay the diggers – often little more than a meal a day – and the sieves, shovels, pumps and loans needed to keep the diggers working.”¹⁷⁹ Simply put, artisanal alluvial mining enriches the corrupt, the criminal, and the warlord, thriving on the exploitation of the impoverished, in countries where people have no other means of survival.

¹⁷¹ Smillie, Ian, 2002, 25.

¹⁷² *Ibid.*

¹⁷³ *Ibid.*

¹⁷⁴ “Alluvial Diamond Mining Fact Sheet,” *World Diamond Council*, accessed November 12, 2010, http://www.diamondfacts.org/pdfs/media/media_resources/fact_sheets/Alluvial_Mining_Background.pdf.

¹⁷⁵ Smillie, Ian, 2002, 25.

¹⁷⁶ Smillie, Ian, 2005, 1.

¹⁷⁷ “Zimbabwe army ‘runs diamond mine’,” *BBC News*, June 26, 2009, accessed July 12, 2009, <http://news.bbc.co.uk/2/hi/africa/8120931.stm>.

¹⁷⁸ Smillie, Ian, 2005, 3.

¹⁷⁹ *Ibid.*

IX. The Illicit Oil Trade

Overview

Illicit and unrecorded oil trading occurs in three main forms. The first is when inexpensive subsidized fuel is purchased in one country, smuggled into another, and sold at a huge profit. For example, in 2005 the subsidized cost of gas in Iraq was around 5 cents per gallon. In Kuwait, the cost was closer to 79 cents per gallon.¹⁸⁰ It is easy to see how a smuggler could purchase 1,000 gallons of gas in Iraq for \$50, transport it to Kuwait, and sell it (below market price) for \$780. Venezuela's Oil Ministry, facing a similar problem in 2008 with subsidized gasoline selling for as little as \$0.12 per gallon, agreed to send between 50,000 and 120,000 barrels of oil per month to Colombia in order to combat this very type of smuggling.¹⁸¹ This oil smuggling is not necessarily linked to international criminal organizations, and the quantities smuggled vary from one case to another. In 2005, for example, Indonesia was said to be "losing the equivalent of about \$862 million a year,"¹⁸² while Sweden's loss in 2004 was only between \$7 and \$8.4 million.¹⁸³

A second illicit activity associated with oil occurs when crude oil is removed in excess of the licensed amount. This usually involves falsifying paperwork and often requires the complicity of corrupt officials and oil company employees.¹⁸⁴ This insidious form of theft is believed to occur in Saudi Arabia, Russia, Nigeria, Angola, and Iraq.¹⁸⁵

The third form of illicit oil trading, called bunkering, is the phenomenon that is most commonly connected to transnational criminal organizations. Bunkering involves the direct theft of oil out of pipelines, often through illegally installed valves. The funds from this oil are often used to finance militants, criminals, and corrupt government officials.¹⁸⁶ According to a 2009 report by the United States Institute for Peace (USIP), "Oil bunkering thrives in a climate of instability, conflict, and political chaos."¹⁸⁷ Militants in Nigeria and Iraq, as well as drug cartels in Mexico have been known to finance their operations through oil bunkering.

This report will begin by looking at the size of the illicit oil trade, followed by a brief analysis of the flow of illicit oil, the distribution of profits, and the role of developing versus developed countries.

¹⁸⁰ Miller, T. Christian. "Subsidized Fuel is Spirited out of Iraq," *LA Times* (9 August 2005), accessed August 12, 2010, <http://articles.latimes.com/2005/aug/09/world/fg-smuggle9>.

¹⁸¹ "Venezuela's Chavez ends Colombia fuel subsidy," *Reuters* (9 August 2009), accessed August 12, 2010, <http://www.reuters.com/article/idUSN0941743120090809>.

¹⁸² Greenlees, Donald. "Asia oil subsidies bring windfall to smugglers." *The New York Times*, 27 September 2005, accessed June 29, 2009, <http://www.nytimes.com/2005/09/26/business/worldbusiness/26iht-smuggle.html>.

¹⁸³ "Fuel oil smuggling costs Sweden millions: official." *EUbusiness*, 12 January 2004, accessed July 1, 2009 <http://www.eubusiness.com/europe/sweden/040112154752.6edsvkoo>.

¹⁸⁴ *Ibid.*, 5.

¹⁸⁵ Baker, Raymond, *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System* (Hoboken: Wiley, 2005), 167.

¹⁸⁶ Walker, Andrew. "'Blood oil' dripping from Nigeria," *BBC News* (27 July 2008), accessed August 12, 2010, <http://news.bbc.co.uk/2/hi/africa/7519302.stm>.

¹⁸⁷ Asuni, Judith Burdin, "Blood Oil in the Niger Delta," *United States Institute of Peace* (August 2009): 3, accessed November 15, 2010, http://www.usip.org/files/resources/blood_oil_nigerdelta.pdf.

Estimated Value of the Illicit Oil Trade

In his book, *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System*, Raymond Baker estimates that “Unrecorded oil sales out of Saudi Arabia (believed to be ongoing for years), Russia, Nigeria, Angola, and perhaps still Iraq, and elsewhere easily push upwards to 500,000 barrels a day.”¹⁸⁸ This equates to approximately 183 million barrels per year. Next, using the weekly world crude oil prices listed by the U.S. Energy Information Administration, this report calculates an average oil price of \$59.16 per barrel from January 2003 through July 2010.¹⁸⁹ Using these numbers, it is estimated that the average yearly value of illicit oil from 2003 to 2010 was \$10.8 billion.

Analyzing the Flow of Illicit Oil

With a limited number of oil rich countries to choose from, identifying the potential sources of stolen oil is not terribly difficult. In addition to Saudi Arabia, Russia, Nigeria, Angola, and Iraq, there have also been reports of significant losses in Iran, Venezuela, Bulgaria, Kuwait, Mexico, and the Philippines.¹⁹⁰ For the purposes of this report, it is important to note that every one of these countries is considered developing according to the International Monetary Fund.¹⁹¹

Unfortunately, determining the destination for illicit oil is much more difficult, and seems to be predicated largely on the type of illicit activity involved. In smuggling operations the oil does not travel very far, usually into neighboring countries where oil prices are higher. In 2009, for example, a group of smugglers was arrested trying to smuggle fuel from Russia into the Ukraine.¹⁹² Bunkered oil often makes a number of stops, obscuring its origin so that it can eventually find its way into the legitimate international trade. In Nigeria, for example, stolen oil is transported by small barges to tankers “lurking out of sight of the authorities.”¹⁹³ The tankers will then exchange the oil for cash and weapons before transferring the oil either to refineries along the West African coast¹⁹⁴ or to spot markets as far away as Rotterdam.¹⁹⁵ Once the oil is removed from the source country it can be sold openly on the international market, either by using a false certificate of origin or by mixing it with other oil to disguise its origin.¹⁹⁶

¹⁸⁸ Baker, Raymond, 167.

¹⁸⁹ U.S. Energy Information Administration: *Independent Statistics and Analysis*, accessed August 16, 2010, <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WTOTWORLD&f=W>.

¹⁹⁰ “Gas and Oil Smuggling Black Market Value: \$12.75 Billion,” *Havocscope Black Markets*, accessed November 15, 2010, <http://www.havocscope.com/gas-and-oil-smuggling-by-markets/>.

¹⁹¹ See Appendix I: Emerging and Developing Countries.

¹⁹² “Smugglers build oil pipeline from Russia to Ukraine,” *Russia Today*, May 15, 2009, accessed July 1, 2009, <http://rt.com/news/smugglers-build-oil-pipeline-from-russia-to-ukraine/>.

¹⁹³ Asuni, Judith Burdin, 5.

¹⁹⁴ Houreld, Katharine, “Oiling the wheels of death,” *The Guardian*, November 17, 2004, accessed November 15, 2010, <http://www.guardian.co.uk/society/2004/nov/17/environment.environment2>.

¹⁹⁵ Asuni, Judith Burdin, 5.

¹⁹⁶ Baer, Robert, “Who Is Stealing Iraq's Oil?” 1, May 17, 2007, accessed November 15, 2010, <http://www.time.com/time/printout/0,8816,1622785,00.html>.

Profit Distribution

The illicit oil trade is as international and multifaceted as any licit trade. In the case of Nigeria alone, criminals from Eastern Europe, Russia, Australia, Lebanon, the Netherlands, and France are all known to play specific roles ranging from financing to transportation to money laundering.¹⁹⁷ In one specific case, the money trail “followed a path from Senegal and Cote d’Ivoire through French credit agencies to Syria and Lebanon.”¹⁹⁸

In a deliberately opaque market it is not easy to know who is reaping most of the benefits. According to Robert Baer of Time Magazine, in 2007, Iraqi militias in the port city of Basra were selling stolen oil for \$10 to \$12 a barrel.¹⁹⁹ Buyers would then arrange for the oil to be shipped to Dubai, where it was sold for \$30 a barrel at the dock.²⁰⁰ By Baer’s estimation traders could expect to make a 4 percent return on the oil, “with the rest of the money going to Fadhila and other militias.”²⁰¹ Using a similar network of buyers and brokers, gangs and militias all over the world, from the Zetas in Mexico to the Egebesu boys in Nigeria, have tapped into the indiscriminate global demand for oil in order to fund their criminal and violent activities.

Illicit Oil and the Developing World

Like most illicit trade, the relationship between illicit oil and developing countries is multifaceted and self-perpetuating. On the one hand, economic and political conditions in developing countries can be seen as a root cause of illicit trade. In the absence of legitimate economic opportunities people will do whatever it takes to provide for their families, even if it means smuggling oil from Iraq or bunkering in Nigeria. This is especially true in places where lack of trust due to government corruption has people feeling they need to fend for themselves, and where governments struggle to control their territory and enforce the rule of law.

This scenario, common in developing countries, is contributes to the emergence of two types of organized criminal networks. The first are criminal groups like the Zetas in Mexico which are driven purely by profit.²⁰² These groups do not necessarily have political aspirations, or if they do it is merely to facilitate and maximize their illicit activities. The second type of criminal group seems to be more common in relation to the illicit oil trade. These groups are motivated by political grievance and economic marginalization (either real or perceived), and use illicit oil revenues to finance armed rebellion and forcibly seize a bigger piece of the economic pie. In Nigeria for example, the Movement for the Emancipation of the Niger Delta (MEND) emerged following years of exploitation and neglect

¹⁹⁷ Asuni, Judith Burdin, 5.

¹⁹⁸ *Ibid.*

¹⁹⁹ Baer, Robert, 2007.

²⁰⁰ *Ibid.*

²⁰¹ *Ibid.*

²⁰² “Mexican cartels tied to stolen oil sold in U.S.,” *Associated Press*, August 10, 2009, accessed November 15, 2010, http://www.msnbc.msn.com/id/32360939/ns/world_news-america#.

on the part of the Nigerian federal government. MEND has claimed responsibility for kidnappings and attacks on oil infrastructure, and “is heavily involved in the oil-bunkering trade, which provides a steady stream of income to buy weapons.”²⁰³

Though some like MEND claim to be altruistic and fighting for equality and political representation, these criminal groups often realize that they profit more from the illicit oil trade than they would from development and government reform. Furthermore, the possibility of prosecution and imprisonment makes rebellion an all-or-nothing scenario. To avoid sanction the group must either overthrow the government completely, an unlikely proposition, or sustain the rebellion indefinitely. At this point, whether for greed or survival, the illicit oil trade becomes critical to these criminal organizations, leaving them with very little incentive to bolster the legitimate economy and strengthen the capacity of the state. In sum, the illicit oil trade is both a product and a perpetuator of underdevelopment.

²⁰³ Asuni, Judith Burdin, 4.

X. The Illicit Timber Trade

Overview

The illegal extraction and trade in timber causes significant environmental and economic damage. Environmental consequences include climate change and soil erosion,²⁰⁴ while economically the practice depresses world timber prices and, of particular interest to this discussion, accounts for billions of dollars in lost capital from developing countries annually.²⁰⁵ After looking at the size, flow, and profit distribution of the illicit trade, this report will briefly discuss the specific effects of the illicit timber trade on developing countries.

The first step, however, is to define what constitutes “illicit timber.” In a 2004 report for the American Forest & Paper Association, Seneca Creek Associates and Wood Resources International generally define illegal logging as occurring “when timber is harvested, transported, bought or sold in violation of national laws.”²⁰⁶ Often, these activities include the falsification of paperwork or the bribing of officials throughout the extraction and trade process.²⁰⁷

In most developing countries, the government authorizes private firms to harvest in public forests under certain conditions. These conditions specify the volume and species that may be harvested as well as the area and time of year trees may be cut. There are also regulations on harvesting technology and methods in order to minimize the damage that is done to the forests. Any logs that are harvested in violation of these regulations are deemed to be illegal.²⁰⁸

Estimated Value of the Illicit Timber Trade

Because most illegally harvested wood is used domestically, it is important to distinguish between figures that refer to global illegal forest activity and figures that estimate the international trade of illegally harvested wood. The Seneca Creek and Wood Resources International report estimates that “illegal forest activity represents between 5 percent and 10 percent of global industrial production.”²⁰⁹ By contrast, the same report estimates that “The suspicious volume of roundwood that enters international trade represents on the order of just one percent of global production for both softwood and hardwood.”²¹⁰

²⁰⁴ “The Globalization of Crime: A Transnational Organized Crime Threat Assessment.” *United Nations Office on Drugs and Crime* (Vienna, 2010) p. 161, accessed August 26, 2010, http://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf.

²⁰⁵ Contreras-Hermosilla, Arnoldo, Richard Doornbosch, and Michael Lodge. “The Economics of Illegal Logging and Associated Trade.” *Organisation for Economic Co-operation and Development* (Paris, January 2007) p. 4, accessed August 26, 2010, http://www.illegal-logging.info/uploads/OECD_background_paper_on_illegal_logging.pdf.

²⁰⁶ “‘Illegal’ Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry.” *Seneca Creek Associates, LLC and Wood Resources International, LLC* (November 2009) p. 4, accessed August 26, 2010, <http://www.illegal-logging.info/uploads/afandpa.pdf>.

²⁰⁷ Contreras-Hermosilla, Arnoldo et al., p. 34.

²⁰⁸ *Ibid.*, 16

²⁰⁹ “‘Illegal’ Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry.” p. ES-4.

²¹⁰ *Ibid.*

In a 2007 report the Organization for Economic Cooperation and Development (OECD) estimated that the forest sector accounts for about one percent of world Gross Domestic Product (GDP).²¹¹ The CIA World Factbook estimated the 2009 world GDP at \$70.17 trillion,²¹² which would set the 2009 value of global wood production at \$701.7 billion. Based on the Seneca Creek and Wood Resources International estimate of one percent, this report calculates the value of suspicious wood in the international market to be around \$7 billion in 2009. This is consistent with the Seneca Creek and Wood Resources International estimate of \$4.9 billion in 2004 when world GDP was \$42 trillion.

Analyzing the Flow of Illicit Timber

Illegally sourced wood usually originates in the developing countries of Southeast Asia, the Amazon, and the Congo Basin.²¹³ After it has been harvested, illegal timber must be processed. Either it is smuggled out of the country to avoid export duties and processed in transit countries where it is sold legally, or the wood is illegally transported to a domestic industrial mill which could either operate without proper licensing or simply mix illegal logs with legal logs, making it nearly impossible to differentiate.²¹⁴

In cases where illicit timber leaves its source country it is exceedingly difficult to track as it is processed and transformed into finished wood products. Much of the literature points to China and Vietnam as major processing countries for illegally sourced wood.²¹⁵ Though China's imports of illegally sourced wood seem to have declined with the global economic slowdown, in 2008 they still imported an estimated 20 million cubic meters mainly from Russia, Papua New Guinea, the Solomon Islands, and Indonesia.²¹⁶ At 1.5 million cubic meters, Vietnam imports much less illicit wood than China; however, while China's imports seem to have declined, Vietnam has shown a steady increase from 2000 to 2008.²¹⁷

As with many illicit goods, the main consumers of illicit wood are located in European countries, the United States, and Japan.²¹⁸ While Japan's imports of illicit timber have been declining steadily since 2004, the United States and the United Kingdom showed sharp increases from 2004 to 2006. This is believed to be a result of "a rapid increase in imports of wood products from China ... much of the raw wood probably having been illegally sourced."²¹⁹ Small declines in 2008 are attributed to the global economic downturn.

²¹¹ Contreras-Hermosilla, Arnoldo et al., p. 11.

²¹² "The World Factbook," *Central Intelligence Agency*, accessed August 30, 2010, <https://www.cia.gov/library/publications/the-world-factbook/geos/xx.html>.

²¹³ The World Bank, "Strengthening Forest Law Enforcement and Governance: Addressing a Systematic Constraint to Sustainable Development," August 2006, 24, accessed August 26, 2010, http://www.illegal-logging.info/uploads/Forest_Law_FINAL_HI_RES_9_27_06_FINAL_web.pdf.

²¹⁴ Contreras-Hermosilla, Arnoldo et al., 16.

²¹⁵ Lawson, Sam and Larry MacFaul, "Illegal Logging and Related Trade: Indicators of the Global Response," *Chatham House* (July 2010): 105-106, accessed August 26, 2010, <http://www.illegal-logging.info/uploads/CHillegalloggingpaperwebready1.pdf>.

²¹⁶ *Ibid.*, Figure 5.12, 105.

²¹⁷ *Ibid.*, Figure 5.13, 106.

²¹⁸ *Ibid.*, 106.

²¹⁹ *Ibid.*, 108.

Profit Distribution

Illegal logging networks are known to involve “illegal entrepreneurs and international crime syndicates.”²²⁰ These networks are complex and often require the complicity of a number of different actors including logging companies, public officials, local workers, law enforcement, and the military.²²¹ The large profits from the \$7 billion illegal timber industry often enable the bribing and corrupting of officials, especially in developing countries where these officials tend to be underpaid.²²²

As with most criminal markets, the capital flows from the illicit timber trade are difficult to track. No trafficker or corrupt government official will openly reveal how much they profited from illegal activities. Along with being self-incriminating, this could reduce the profits by subjecting them to taxation.

It would be incomplete, however, to suggest that all illicit timber profits disappear into the criminal shadow economy. The wages paid to local workers, for example, represent some capital inflow to developing countries. In one example, Indonesian loggers were paid \$20 per cubic meter of illegal timber, which was eventually sold by Malaysian businessmen for \$200 per cubic meter.²²³ Assuming this is a representative markup, it can be extrapolated that \$700 million flows into source countries as a result of the illicit timber trade. While this amount may seem small and exploitative when compared to the \$7 billion market value, it is not an insignificant inflow.

Illicit Timber and the Developing World

According to the World Bank, the door to illegal logging is opened by “weak governance and subsequent poor law enforcement in the forest sector.”²²⁴ Furthermore, Chart 1 demonstrates the positive correlation between high levels of government corruption and suspicious logging. Therefore, it stands to reason, as the OECD states, that “most of the illegal logging takes place in developing countries.”²²⁵

Despite some capital inflow, it is quite clear that the illicit timber trade does more harm than good to developing countries. According to Duncan Brack of Chatham House, illegal logging “causes environmental damage, costs governments billions of dollars in lost revenue, promotes corruption, undermines the rule of law and funds armed conflict” in timber-producing countries.²²⁶

²²⁰ Van Solinge, Tim Boekhout, “Eco-Crime: The Tropical Timber Trade,” in *Organized Crime: Culture, Markets and Policies*, eds. D. Siegel and H. Nelen (The Netherlands: Springer, 2008), 97-111.

²²¹ *Ibid.*, 109.

²²² *Ibid.*, 110.

²²³ *Ibid.*

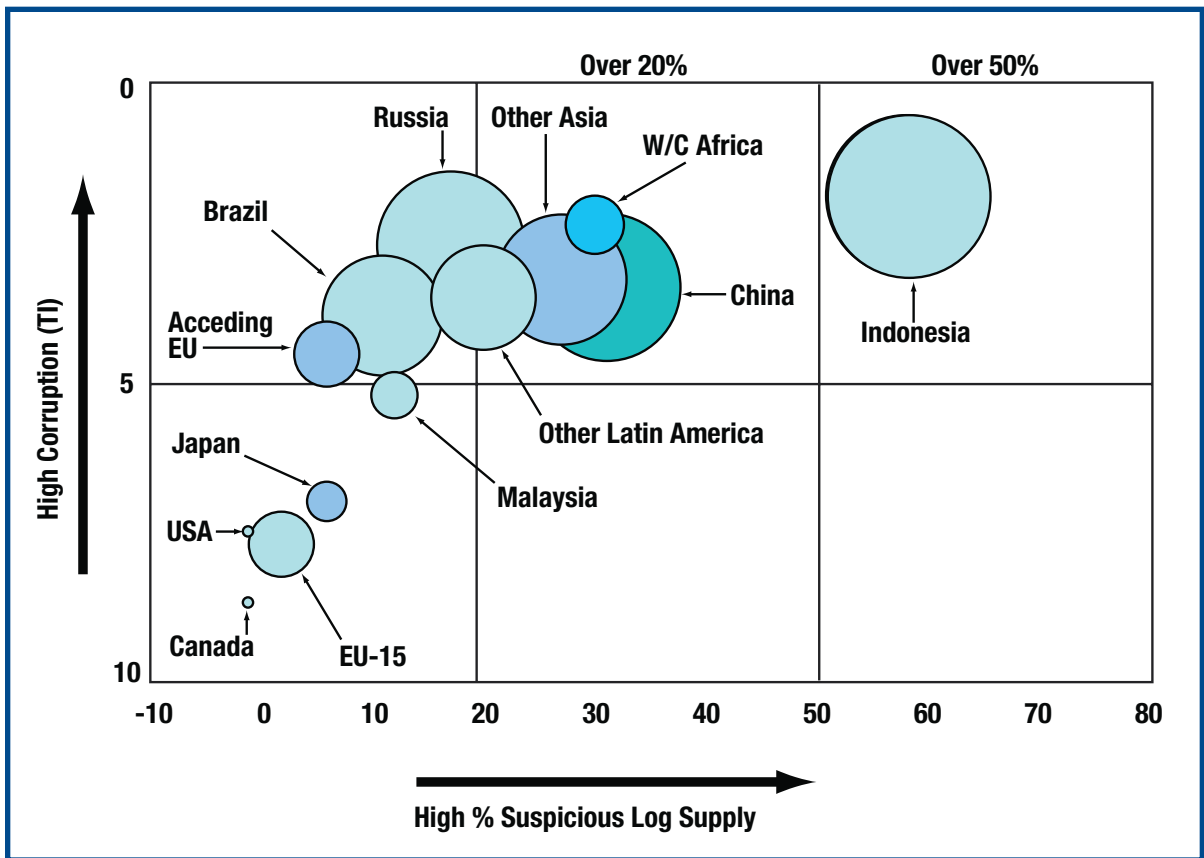
²²⁴ The World Bank, “Strengthening Forest Law Enforcement and Governance: Addressing a Systematic Constraint to Sustainable Development,” 1.

²²⁵ Contreras-Hermosilla, Arnoldo et al., p. 17.

²²⁶ Brack, Duncan, “Illegal Logging,” *Chatham House*, July 2007, accessed August 26, 2010, http://www.chathamhouse.org.uk/files/9384_bp0707illegallogging.pdf.

At the very least timber traffickers are like parasites, sucking the resources dry and profiting from underdevelopment in some of the world's poorest countries. In extreme cases like Cambodia, Liberia, Ivory Coast, and the Democratic Republic of Congo, revenues from illicit timber funded armed conflict, "thereby creating political instability in which entrenched interest groups (timber traffickers) continue their exploitative activities."²²⁷ Timber traffickers, in other words, are not simply passive beneficiaries of underdevelopment. They have a \$7 billion incentive to actively undermine development in timber producing countries.

Chart 1. Correlation Between High Levels of Government Corruption and Suspicious Log Supply



Source: "Illegal' Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry," 2004: p. 8. <http://www.illegal-logging.info/uploads/afandpa.pdf>

Note: Bubble size reflects volume of suspicious roundwood, including imports.

²²⁷ The World Bank, "Strengthening Forest Law Enforcement and Governance: Addressing a Systematic Constraint to Sustainable Development," 2.

XI. The Illicit Fish Trade

Overview

The transnational illicit fish trade is composed of any Illegal, Unreported, or Unregulated (IUU) fish stock that enters the international market. Illegal fishing is any activity which violates national laws, obligations prescribed by a relevant regional fisheries management organization (RFMO), or any other international obligations. Unreported fishing constitutes any fishing activity that is unreported or misreported to national authorities or relevant RFMO. Unregulated fishing refers to vessels fishing in RFMO waters which are not flying the flag of a member state, or which are in violation of the conservation and management measures of the relevant RFMO.²²⁸

One of the main drivers of IUU fishing is the availability of Flags of Convenience (FOC). According to the Organization for Economic Cooperation and Development (OECD), FOC “refers to a state that is willing to have a vessel on its national register without undertaking fully its obligations ... to exert Flag State jurisdiction and control.”²²⁹ Vessels often seek out FOC countries as a way of avoiding licensing fees, taxes, and safety requirements.²³⁰ Because FOC states are generally not members of RFMOs or other agreements, their flag vessels are essentially out of reach of international law, opening the door to IUU fishing.²³¹ Of the 32 FOC countries listed by the International Transport Workers’ Federation, 29 are developing countries.²³²

This report is primarily interested in the effects of illicit trade on developing countries. The following analysis will begin by estimating the value of the global illicit fish market. Subsequent discussions of supply and demand as well as profit distribution will demonstrate the role of developing countries in the illicit trade. In conclusion, this report will describe the cycle whereby conditions in developing countries encourage illicit fishing which, in turn, retards development even further.

Estimated Value of the Illicit Fish Trade

According to Gunnar Stølsvik of the Norwegian national advisory group against organized IUU-fishing (FFA), illegal fishing represents a major loss of revenue, possibly in the range of \$10 to \$23 billion each year.²³³ It is difficult, however, to know what percentage of this loss is sustained by developing countries. The Food and Agriculture Organization of the United Nations (FAO) estimates that, in value terms, fish and fishery products from developing countries account for 49 percent of

²²⁸ “Illegal, Unreported and Unregulated Fishing,” MRAG Ltd (2009), accessed September 1, 2010, http://www.mrag.co.uk/Documents/PolicyBrief8_IUU.pdf.

²²⁹ OECD, “Fish Piracy: Combating Illegal, Unreported and Unregulated Fishing,” (OECD: 2004), 175.

²³⁰ Ibid.

²³¹ Ibid.

²³² “FOC countries,” *International Transport Workers’ Federation*, accessed November 19, 2010, <http://www.itfglobal.org/flags-convenience/flags-convenience-183.cfm>.

²³³ Stølsvik, Gunnar, “The transnational nature of illegal fishing,” *Financial Integrity and Economic Development Task Force*, September 27, 2010, accessed November 18, 2010, <http://www.financialtaskforce.org/2010/09/27/the-transnational-nature-of-illegal-fishing/>.

world seafood exports.²³⁴ Assuming the rate of 49 percent also applies to developing countries' market share of *illicit* fish exports, it is estimated that, at a minimum, IUU fishing costs developing countries \$4.9 to \$11.3 billion each year.

Subsequent sections will demonstrate that conditions in developing countries make them more vulnerable to IUU fishing than developed countries. As a Marine Resources Assessment Group report prepared for the United Kingdom's Department for International Development stated, "Developing countries are most at risk from illegal fishing, with total estimated catches in West Africa being 40 percent higher than reported catches. There is a significant link between the high levels of illegal fishing and poor governance."²³⁵ Thus it is likely that 49 percent is a low estimate, and that losses incurred by developing countries are actually much greater.

There is also a distinction that must be made between the amount of revenue that is lost and the actual value of the IUU trade. As discussed in the earlier section on Counterfeiting, the estimated value of an illicit market is usually less than the estimated losses incurred by legitimate companies and governments. For IUU fishing, the global value is believed to be between \$4.2 and \$9.5 billion.²³⁶

Analyzing the Flow of Illicit Fish

There is strong evidence to suggest that, like most illicit trafficking, illegally harvested fish originate in the waters off the coasts of developing countries and are transported for sale in the wealthy countries of the developed world. The two regions most affected by IUU fishing are sub-Saharan Africa – estimated to lose over \$1 billion every year,²³⁷ and Southeast Asia – where, in Indonesia alone, 1.6 million tons of fish are poached resulting in a yearly loss of \$3 billion.²³⁸

IUU fishing is often more an issue of unlicensed and excessive fishing than of fishing for protected or endangered species. As a result, when a country imports a fish, it is nearly impossible to know if the fish was legally or illegally acquired. It is believed that some percentage of all fish imports involves illicit stock, and consequently the world's biggest fish importers by quantity are also the

²³⁴ "The State of World Fisheries and Aquaculture 2008," *Food and Agriculture Organization of the United Nations, FAO Fisheries and Aquaculture Department* (2009), 48, accessed September 1, 2010, <ftp://ftp.fao.org/docrep/fao/011/i0250e/i0250e.pdf>.

²³⁵ "Illegal, Unreported and Unregulated Fishing," 2009.

²³⁶ High Seas Task Force, "Closing the net: Stopping illegal fishing on the high seas," *Governments of Australia, Canada, Chile, Namibia, New Zealand, and the United Kingdom, WWF, IUCN and the Earth Institute at Columbia University* (2006): 18, accessed November 19, 2010, <http://www.illegal-fishing.info/uploads/HSTFFINALweb.pdf>.

²³⁷ Iyambo, Abraham, Minister of Fisheries and Marine Resources of Namibia, *5th International Forum on Illegal, Unreported and Unregulated Fishing*, October 15, 2009, accessed November 18, 2010, <http://www.illegal-fishing.info/uploads/MinisterIyamboSpeech.pdf>.

²³⁸ "Transnational Organised Crime in Southeast Asia: Threat Assessment," *Center for Non-Traditional Security Studies, NTS Alert* July 2010, accessed November 1, 2010, <http://www.rsis.edu.sg/nts/HTML-Newsletter/alert/NTS-alert-jul-1001.html>.

most likely destinations for illicit fish. According to Huw Irranca-Davies, the U.K. Minister for Marine and Natural Environment, the European Union is “the world’s largest importer of fish products,” and, “a major target for illegal operators.”²³⁹ An estimated €1 billion (\$1.4 billion) in illegal fish products are imported into the European Union every year.²⁴⁰ Other top importers of fish include Japan, the United States, China, and South Korea.²⁴¹

Profit Distribution

Though little is known about the distribution of profits from IUU fishing, the evidence seems to suggest the involvement of organized crime groups. These groups are actively engaged in “the concealment of financial transactions and profits . . . through such methods as transfer pricing and underground banking.”²⁴² Furthermore, as with other organized criminal activities, laborers from developing countries are often exploited as a way of keeping overhead costs down. Many of the crew on IUU vessels are “from Indonesia, China and other developing countries,”²⁴³ and are paid as little as \$3.00 a day while working in “poor social and safety conditions.”²⁴⁴ In short, while much of the money from IUU fishing is laundered and concealed by criminal syndicates, very little finds its way into developing economies reliant on income from the fish industry.

The Illicit Fish Trade and the Developing World

The reality is that the illicit fish trade targets those countries which rely most heavily on their fishing industries. Fish accounts for “a fifth of protein nutrition in developing countries,”²⁴⁵ and “exports of fish from developing countries . . . are worth more than exports of many other agricultural commodities combined.”²⁴⁶ Unfortunately, many of these countries struggle with poor governance and fishery management.²⁴⁷ This leads to insufficient law enforcement and patrolling and, as a result, they are deliberately targeted by IUU fisherman.²⁴⁸

²³⁹ Irranca-Davies, Huw, UK Minister for Marine and Natural Environment, *5th International Forum on Illegal, Unreported and Unregulated Fishing*, October 15, 2009, accessed November 18, 2010, <http://www.illegal-fishing.info/uploads/HuwIrrancaDaviespeech.pdf>.

²⁴⁰ *Ibid.*

²⁴¹ “The State of World Fisheries and Aquaculture 2008,” Table 8, 48.

²⁴² Putt, Judy and Katherine Anderson, “A national study of crime in the Australian fishing industry,” *Australian Institute of Criminology*, 2007, pg. 24, accessed November 19, 2010, <http://www.aic.gov.au/documents/5/D/6/%7B5D6D36A1-3D6F-47BA-82AC-56DA79114CA6%7Drpp76.pdf>.

²⁴³ OECD, “Fish Piracy: Combating Illegal, Unreported and Unregulated Fishing,” 180.

²⁴⁴ *Ibid.*, 11.

²⁴⁵ Irranca-Davies, Huw, 2009.

²⁴⁶ *Ibid.*

²⁴⁷ “Illegal, Unreported and Unregulated Fishing,” 2010.

²⁴⁸ Copeland, Duncan, “IUU Fishing in West Africa,” *Environmental Justice Foundation*, October 16, 2009, accessed November 18, 2010, <http://www.illegal-fishing.info/uploads/DuncanCopelandIUUFishinginWestAfrica.pdf>.

But IUU fishing does not just benefit from the conditions of underdevelopment; it perpetuates these conditions by stealing a vital revenue source that could be used to contribute to “growth, livelihoods and food security.”²⁴⁹ This makes governance and fishery management even more difficult, which simply opens up more space for IUU fishing. This parasitic cycle will continue until the fish are gone and the criminals move somewhere else, leaving the country worse off than when they arrived.

A final troubling element to the illicit fish trade is its connection to other criminal markets, especially human and drug trafficking. In some cases, men and boys are brought onboard IUU vessels as crew members, only to be enslaved for up to two years or more and subjected to inhumane conditions and physical abuse.²⁵⁰ As for drug trafficking, IUU vessels can be used to store and transport drugs, or the purchase of illegal fishing vessels can be used as a means of disposing of money acquired through the illicit drug trade.²⁵¹ This overlapping of criminal activities points once again to the involvement of organized criminal networks profiting from and perpetuating the weaknesses of the developing world.

²⁴⁹ Irranca-Davies, Huw, 2009.

²⁵⁰ Stølsvik, Gunnar, 2010.

²⁵¹ *Ibid.*

XII. The Illicit Trade of Art and Cultural Property

Overview

Artifacts and cultural materials are an invaluable source of national pride and identity in developing countries. With the sense of history and heritage that these materials provide, it is no surprise that source countries attempt to prevent these items from leaving state borders. In the case of archeological artifacts, most countries have legislation which awards the state ownership of any artifacts found in the ground; and the export of such artifacts is either “prohibited or subject to conditions.”²⁵² Nevertheless, wealthy collectors in the developed world continue to pay hundreds, thousands, and sometimes millions of dollars for these items. It is this demand that sustains the smuggling networks and drives the illicit trade in cultural property.²⁵³

In their 1970 Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property, the United Nations Educational, Scientific and Cultural Organization (UNESCO) defined cultural property as “property which, on religious or secular grounds, is specifically designated by each State as being of importance for archaeology, prehistory, history, literature, art or science...”²⁵⁴ The UNESCO convention goes on to list eleven categories that would constitute culture property. These categories include antiquities more than one hundred years old, property of artistic interest, property relating to history, and products of archeological excavations.²⁵⁵

This analysis will begin by estimating of the size of the illicit trade in cultural property. Then, a look at the flow of goods, profit distribution, and the role of developing countries will demonstrate how, through a process of looting, smuggling, and laundering, criminals are able to take advantage of the world’s poor in order to profit from the world’s rich.

Estimated Value of the Illicit Trade of Cultural Property

The actual value of the global illicit trade in cultural property is unknown and most experts are hesitant to estimate a value. Estimates that do exist range in size from \$300 million to \$6 billion per year,²⁵⁶ with Interpol estimating \$4 to \$5 billion,²⁵⁷ and the International Scientific and Professional Advisory Council of the United Nations Crime Prevention and Criminal Justice Programme (ISPAC)

²⁵² Massy, Laurence, “The antiquity art market: between legality and illegality,” *International Journal of Social Economics* (Vol. 35, No. 10, 2008) p. 730, accessed December 15, 2010, doi: 10.1108/03068290810898936.

²⁵³ *Ibid*, 736.

²⁵⁴ “Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property,” UNESCO (Paris: 12 October to 14 November 1970) p. 136, accessed September 10, 2010, <http://unesdoc.unesco.org/images/0011/001140/114046Eb.pdf>.

²⁵⁵ *Ibid*.

²⁵⁶ Atwood, Roger, *Stealing History: Tomb Raiders, Smugglers, and the Looting of the Ancient World* (New York: St. Martin’s Press, 2004) p. 221.

²⁵⁷ Toner, Mike, “The Past in Peril; Buying, Selling, Stealing History,” *The Atlanta Journal Constitution* (September 19, 1999).

estimating \$6 to \$8 billion.²⁵⁸ This report creates a range by taking the average of the low estimates and the average of the high estimates reported above. The result is an annual value of \$3.4 to \$6.3 billion.

Analyzing the Flow of Cultural Property

In their report entitled “Stealing History: The Illicit Trade in Cultural Material,” experts Neil Brodie, Jenny Doole, and Peter Watson state that the illegal trade in artifacts is a “one-way trade” that moves cultural objects “from south to north, from east to west, from third and fourth worlds to the first, and from poor to rich.”²⁵⁹ This statement is corroborated by a United Nations Office on Drugs and Crime (UNODC) expert group who wrote in 2009 that, “Like many illicit markets, source countries for antiquities tend to be developing countries whereas market countries are richer, developed nations.”²⁶⁰ Common source countries include Thailand, Cambodia, China, India, Niger, Mali, Tanzania, Turkey, Peru, Guatemala, Jordan, and Iraq, among others.

Every source country prohibits the removal of cultural material, which means that any such items reaching the international market must arrive there illegally.²⁶¹ In the country of origin, this typically involves the falsification of paperwork and/or the corruption of public officials.²⁶² There is also a necessary degree of complicity on the part of western dealers and auction houses which must legitimate illegally acquired goods by shrouding their dubious origins.²⁶³ Using this laundering process, criminals are able to maximize their profits by selling looted cultural property to the wealthiest collectors and museums in the United States and Europe.

Profit Distribution

To demonstrate the economic effect this illicit trade has on developing countries, imagine a looter in Central America unearths a vessel, which he sells to a middleman for \$300. The middleman smuggles the vessel into the United States where it is sold to a collector for \$100,000. The vessel then circulates among wealthy collectors in the United States and Europe, generating money in one transaction after another. Very little, if any, of this generated revenue finds its way back to the

²⁵⁸ Idriss, Manar, Manon Jendly, Jacqui Karn, and Massimiliano Mulone, “International Report on Crime Prevention and Community Safety: Trends and Perspectives,” *International Centre for the Prevention of Crime*, 2010, pg. 52, accessed September 9, 2010, http://www.crime-prevention-intl.org/uploads/media/International_Report_2010.pdf.

²⁵⁹ Brodie, Neil, Jenny Doole, and Peter Watson. “Stealing History: The Illicit Trade in Cultural Material,” *The McDonald Institute for Archaeological Research* (2000) p. 12, accessed September 9, 2010, http://www.mcdonald.cam.ac.uk/projects/iarc/research/illicit_trade.pdf.

²⁶⁰ “Protection against trafficking in cultural property,” UNODC *Meeting of the expert group on protection against trafficking in cultural property* (Vienna, 24-26 November 2009): 5, accessed September 9, 2010, <http://www.unodc.org/documents/organized-crime/V0987314.pdf>.

²⁶¹ Kenneth Polk. “Whither Criminology in the Study of the Traffic in Illicit Antiquities?” in *Criminology and Archaeology*, edited by Simon Mackenzie and Penny Green, (Hart, 2009): 13-26.

²⁶² *Ibid.*

²⁶³ Lane, David C., David G. Bromley, Robert D. Hicks, and John S. Mahoney, “Time Crime: The Transnational Organization of Art and Antiquities Theft,” *Journal of Contemporary Criminal Justice* 24, no. 3 (August 2008) 252, accessed November 22, 2010, doi: 10.1177/1043986208318219.

developing Central American economy where the vessel was found.²⁶⁴ In fact, it has been estimated that, globally, middlemen make over 98 percent of the final price of any looted item, while “the original finder received very little and the final buyer can hardly claim to have obtained a bargain.”²⁶⁵

Cultural Property and the Developing World

While the loss of cultural property certainly has a damaging effect on developing source countries, this damage does not necessarily correlate to direct capital outflow. Rather, the harmful effects are mostly in two main forms. First, similar to wildlife trafficking, the illicit trade in cultural property can be harmful to the tourism industry. Second, the trafficking of illicit antiquities has been tied to terrorist financing²⁶⁶ as well as other destabilizing elements like “drugs and arms smuggling, violence, corruption, and money-laundering.”²⁶⁷

In most cases, countries view their cultural property as a source of history, identity, and pride, not simply as an extractive resource to be traded and taxed for income. These items would probably not end up being sold, and if they were sold to museums through legal channels, it is unlikely that they would draw the same price that wealthy collectors currently pay at auction. As a consequence, ending the smuggling of cultural property would probably not equate to a GDP increase of \$3.4 to \$6.3 billion for developing countries. However, there would likely be some increase in cultural tourism which could bring significant benefit to developing countries. The archeological site of Sipán, Peru, for example, generates around \$14 million in tourist revenue each year.²⁶⁸

The second cause for concern is not due to lost revenue, but rather who is gaining from the trade in cultural property. In 2005, five terrorists were arrested in northwest Iraq. In their possession were “automatic weapons, ammunition stockpiles, black uniforms, ski masks, night-vision goggles ... and 30 vases, cylinder seals and statuettes that had been stolen from the Iraq Museum.”²⁶⁹ In another case, a smuggler’s plane arrived in Colorado from Mexico carrying 350 pounds of marijuana and thousands of dollars worth of Pre-Columbian artifacts.²⁷⁰ Whether it is a criminal group seeking profit or a militant group seeking arms, traffickers of cultural property exploit a key source of pride for many developing countries: their historical cultural identity.

²⁶⁴ Brodie, Neil et al., “Stealing History: The Illicit Trade in Cultural Material,” p. 14.

²⁶⁵ *Ibid.*

²⁶⁶ Bogdanos, Matthew, “The Terrorist in the Art Gallery,” *The New York Times* (10 December 2005), accessed September 9, 2010, <http://www.nytimes.com/2005/12/10/opinion/10bogdanos.html>.

²⁶⁷ “Protection against trafficking in cultural property,” 6.

²⁶⁸ Brodie, Neil and Kathryn Walker Tubb, eds. *Illicit Antiquities: the theft of culture and the extinction of archeology* (London: Routledge, 2002) p. 14.

²⁶⁹ Bogdanos, Matthew, 2005.

²⁷⁰ Brodie, Neil et al., “Stealing History: The Illicit Trade in Cultural Material,” 16.

XIII. The Illicit Gold Trade

Overview

There are several elements that drive the illicit trade of gold. The most obvious is its value. In September of 2010, the gold price reached record heights of over \$1,280 per ounce.²⁷¹ At this price, and with very high demand in countries like India, there is obvious incentive to trade. But why trade illegally? For years, India imposed tight restrictions on gold imports. The cultural demand for gold in India remained high, so there was a huge incentive to smuggle gold in illegally. Some estimate that in the 1980s and early 1990s, the Indian market was supplied almost entirely with unofficial gold.²⁷² Gold imports were liberalized in the early 1990s, but the government still limited traders by requiring them to apply for gold import licenses.²⁷³ Then, in 2009, during the global economic slowdown, the Indian government made it easier to acquire these licenses in order to stimulate the struggling jewelry sector.²⁷⁴ This opening up of imports has reduced smuggling, although it is likely that some smuggling continues due to the rising price of gold and the high import duties that remain in place.

A second element that facilitates the illicit gold trade is the ease with which gold of dubious origins can be diverted into the legitimate market. As Thomas Naylor points out, “with gold, legally and illegally produced raw materials flow through the same channels to the same set of legitimate firms for refining and casting; and the product of these respectable refineries then is redivided into separate streams serving the overt and the covert portions of the market.”²⁷⁵ Uganda’s role in the trade of “conflict gold” from the Democratic Republic of Congo (DRC), discussed in the final section, illustrates this point.

With countries like India providing the demand, the question of supply naturally arises. Reports from Indonesia to South Africa to Peru demonstrate that illegal mining is both a global problem and costly problem for gold source countries. It is important to note, however, that not all illegally mined gold reaches the international market. In Peru, for example, the world’s sixth biggest gold producer, illegal mining is said to be a \$5.6 billion business,²⁷⁶ accounting for as much as 40 percent of total

²⁷¹ Nguyen, Pham-Duy, and Nicholas Larkin. “Gold Climbs to Record on Weaker Dollar, Global Recovery Concern,” *Bloomberg*, 20 September 2010, accessed September 20, 2010, <http://www.bloomberg.com/news/2010-09-20/gold-may-gain-to-record-as-weak-u-s-economic-data-spurs-recovery-concerns.html>.

²⁷² Philip Newman (Research Director, GFMS), in discussion with the author, 17 September 2010.

²⁷³ Bhattacharya, Himadri. “Deregulation of Gold in India,” *World Gold Council* (September 2002): p. 12, accessed September 22, 2010, <http://www.thebulliondesk.com/content/reports/temp/india1.pdf>.

²⁷⁴ Mayenkar, Siddesh. “India eases gold import norm pits traders against banks,” *Reuters*, 9 April 2009, accessed September 22, 2010, <http://in.reuters.com/article/idINIndia-38971920090409>.

²⁷⁵ Naylor, R.T., “The underworld of gold,” *Crime, Law & Social Change* 25, no. 3 (1996): 191-241, accessed December 10, 2010, doi: 10.1007/BF00144647.

²⁷⁶ Morante, Thor. “Illegal gold mining destroying Peru’s Madre de Dios jungle,” *InfoSur Hoy*, 14 April 2010, accessed September 16, 2010, http://www.infosurhoy.com/cocoon/saii/xhtml/en_GB/features/saii/features/society/2010/04/14/feature-03.

production.²⁷⁷ What is not clear, however, is what happens to the gold once it has been illegally mined. How much is sold domestically and how much is smuggled out of the country? This report, primarily concerned with the latter, will discuss the value of illicit gold on the international market, the flow of gold from source country to consumer, and the profit distribution—who is benefiting from the illicit gold trade? In order to demonstrate the effects of illicit gold trafficking on developing countries, the analysis will close with a brief discussion of the much-publicized case of smuggling in DRC.

Estimated Value of the Illicit Gold Trade

Though a thorough review of the literature produced very little information on the value of the global illicit gold trade, reports on individual countries provide an idea of the scope of the problem. Every year, gold valued at an estimated \$1.24 billion is smuggled out of DRC²⁷⁸ and \$547 million out of South Africa.²⁷⁹ In Peru, illegally mined gold generates approximately \$5.6 billion, though it is unclear how much of this gold reaches the international market.²⁸⁰ Assuming Peru is comparable to South Africa, where illegal gold accounts for around 10 percent of gold exports, it can be calculated that Peru loses \$560 million to international trafficking each year.²⁸¹ Together this amounts to a total yearly loss of \$2.3 billion as a result of the illicit gold trade. This is a conservative estimate based on available data for three countries only. With additional reports indicating gold smuggling activities in Brazil, Guyana, Venezuela, Costa Rica, and the Philippines, it is almost certain that, with all countries reporting, the global market for illicit gold would be much higher.²⁸²

Analyzing the Flow of Illicit Gold

Of the top 15 gold producing countries in 2009, 12 are developing countries: China, South Africa, Russia, Peru, Indonesia, Ghana, Uzbekistan, Papua New Guinea, Brazil, Mexico, Mali, and Argentina.²⁸³ Logically, smuggled gold would flow in the same direction as legal gold, namely, anywhere there is a demand for it. According to the World Gold Council the top ten consumers of gold in early 2010 were India, China, the United States, Germany, Turkey, Saudi Arabia, the United Arab Emirates (UAE), Switzerland, Vietnam, and Russia.²⁸⁴

²⁷⁷ Keane, Lauren. "Peru's damaging gold rush; Rising price prompts illegal mining; Rain forests, rivers destroyed," *The Washington Post*, 19 December 2009, accessed September 15, 2010, <http://www.thefreelibrary.com/Peru's+damaging+gold+rush;+Rising+price+prompts+illegal+mining;+Rain...-a0214948494>

²⁷⁸ "The Globalization of Crime: A Transnational Organized Crime Threat Assessment," *United Nations Office on Drugs and Crime* (2010) p. 263, accessed September 22, 2010, http://www.unodc.org/documents/data-and-analysis/tocta/11.Regions_under_stress.pdf.

²⁷⁹ Hurd, Emma, "Sky Exclusive: Cops And Gold Smugglers," *Sky News*, February 27, 2008, accessed September 15, 2010, http://news.sky.com/skynews/Home/Sky-Exclusive-Cops-And-Gold-Smugglers/Article/20070521265637?Ipos=Home_Article_Related_Content_Region_3&lid=ARTICLE_1265637_Sky_Exclusive:_Cops_And_Gold_Smugglers.

²⁸⁰ Morante, Thor, "Illegal gold mining destroying Peru's Madre de Dios jungle."

²⁸¹ McDougall, Dan, "Gold pirates wage a dirty, underground war," *The Sunday Times*, September 27, 2009, accessed December 8, 2010, <http://www.timesonline.co.uk/tol/news/world/africa/article6850786.ece>.

²⁸² Naylor, R.T., 206-206.

²⁸³ "Gold production," *The Economist*, 21 January 2010, accessed September 16, 2010, <http://www.economist.com/node/15331301>.

²⁸⁴ "Gold Demand Trends," *World Gold Council* (August 2010) p.17.

Profit Distribution

The profit distribution in the illicit gold trade follows a very similar pattern to that of the illicit trade in diamonds and gemstones. At the bottom of the chain are the artisanal gold miners who make far less than the true value of their produce. A miner in DRC said he can make between \$5 and \$20 on a good day, or he could go weeks and make nothing.²⁸⁵ In South Africa the rates are only slightly better: “£2,500 for a four-month stint underground,” which converts to about \$30 per day.²⁸⁶ For these paltry rates miners will risk everything. Toxic fumes, fires, and mercury poisoning are only a few of the hazards that claim the lives of thousands of illegal miners every year.²⁸⁷

Miners are commonly exploited and abused by the crime syndicates and rebel groups who make the bulk of the profits from the illicit gold trade. Often heavily armed, these groups, like the Front des Nationalistes et Intégrationnistes (FNI) in DRC, have control over the mines and charge miners an entry fee for access to the mines.²⁸⁸ Subsequently, they also take a substantial portion of any ore that is found. In one case a miner found 10 grams of gold in a month worth \$130. The people in charge took \$50, leaving the miner with \$80 that month, just over \$2.50 per day.²⁸⁹ There are also many cases of child labor and forced labor in the mines.²⁹⁰ These miners do not get paid at all.

Criminal syndicates also handle the transportation and sale of any gold that is removed. In South Africa, criminal gangs sell illicit gold to Chinese triads, often in exchange for AK47s and other weapons. The triads then smuggle the gold out of the country.²⁹¹

Gold Smuggling in the Democratic Republic of Congo

Perhaps the most highly publicized example of gold smuggling comes from the DRC. In their 2010 report entitled “The Globalization of Crime: A Transnational Organized Crime Threat Assessment,” The United Nations Office on Drugs and Crime (UNODC) cited an estimate that around 40 tons of gold are smuggled out of the DRC each year, at a value of around \$1.24 billion in 2009.²⁹² The report explains how the gold is either smuggled through Uganda, Burundi, or Tanzania, and is destined for countries like UAE and Switzerland.

²⁸⁵ “The Curse of Gold: Democratic Republic of Congo,” *Human Rights Watch* (2005): 54.

²⁸⁶ McDougall, 2009.

²⁸⁷ *Ibid.*

²⁸⁸ “The Curse of Gold: Democratic Republic of Congo,” 53.

²⁸⁹ Ross, Will, “On the trail of DR Congo’s ‘cursed’ gold,” *BBC News*, June 3, 2005, accessed August 24, 2009, <http://news.bbc.co.uk/2/hi/africa/4604627.stm>.

²⁹⁰ *Ibid.*

²⁹¹ Stuijt, Adriana, “Gold mines looted by armed miner-gangs in S. Africa, Ghana,” , January 13, 2009, <http://www.digitaljournal.com/article/265104>.

²⁹² “The Globalization of Crime: A Transnational Organized Crime Threat Assessment,” 263.

The situation in DRC reveals two realities about illicit gold trafficking and the developing world. The first is that only the source countries lose money. In DRC's case, criminals rely on the state's inability to control its territory and borders. Through coercion and exploitation, they extract the gold at pennies on the dollar and funnel it into Uganda "via a network of traders who operate outside of legal channels."²⁹³ Traders in Uganda do not ask questions as to the origins of the gold, treating it "as if it were a transit good, filling out customs forms and other documents required to make its export legal from Uganda and acceptable in the unregulated global market."²⁹⁴ In this way, despite having relatively little domestic gold production, Uganda was still able to export \$60 million in gold in 2002.²⁹⁵ Through gold trafficking, therefore, DRC's loss is Uganda's gain.

Second, it is worth repeating that with gold as with all other trafficked goods, those profiting have a strong incentive to maintain the status quo in the source country. This does not simply include organized crime syndicates and criminal gangs. Corrupt officials are also implicated. In November 2010, BBC reported that General Gabriel Amisi Kumba, a senior officer in DRC's military, had "installed a mining firm at the Omate mine in return for a 25 percent cut."²⁹⁶ Successful development in DRC would require a strong, transparent government capable of securing and regulating its mining industry. Criminals and corrupt officials who are currently profiting from the illegal mining and trade of gold are actively and deliberately inhibiting development.

²⁹³ "The Curse of Gold: Democratic Republic of Congo," 97.

²⁹⁴ *Ibid.*, 106.

²⁹⁵ *Ibid.*, 107.

²⁹⁶ Fessy, Thomas, "Congo general 'profits from blood gold,'" *BBC News*, November 10, 2010, accessed December 8, 2010, <http://www.bbc.co.uk/news/world-africa-11722142>.

Appendix

Table 1. Emerging and Developing Countries²⁹⁷

Afghanistan, Islamic Republic of	Georgia	Pakistan
Albania	Ghana	Panama
Algeria	Grenada	Papua New Guinea
Angola	Guatemala	Paraguay
Antigua and Barbuda	Guinea	Peru
Argentina	Guinea-Bissau	Philippines
Armenia	Guyana	Poland
Azerbaijan	Haiti	Qatar
Bahamas, The	Honduras	Romania
Bahrain	Hungary	Russia
Bangladesh	India	Rwanda
Barbados	Indonesia	Samoa
Belarus	Iran, Islamic Republic of	São Tomé and Príncipe
Belize	Iraq	Saudi Arabia
Benin	Jamaica	Senegal
Bhutan	Jordan	Serbia
Bolivia	Kazakhstan	Seychelles
Bosnia and Herzegovina	Kenya	Sierra Leone
Botswana	Kiribati	Solomon Islands
Brazil	Kosovo	South Africa
Brunei Darussalam	Kuwait	Sri Lanka
Bulgaria	Kyrgyz Republic	St. Kitts and Nevis
Burkina Faso	Lao People's Democratic Republic	St. Lucia
Burundi	Latvia	St. Vincent and the Grenadines
Cambodia	Lebanon	Sudan
Cameroon	Lesotho	Suriname
Cape Verde	Liberia	Swaziland
Central African Republic	Libya	Syrian Arab Republic
Chad	Lithuania	Tajikistan
Chile	Macedonia, Former Yugoslav	Tanzania
China	Republic of	Thailand
Colombia	Madagascar	Timor-Leste
Comoros	Malawi	Togo
Congo, Democratic Republic of	Malaysia	Tonga
Congo, Republic of	Maldives	Trinidad and Tobago
Costa Rica	Mali	Tunisia
Côte d'Ivoire	Mauritania	Turkey
Croatia	Mauritius	Turkmenistan
Djibouti	Mexico	Uganda
Dominica	Moldova	Ukraine
Dominican Republic	Mongolia	United Arab Emirates
Ecuador	Montenegro	Uruguay
Egypt	Morocco	Uzbekistan
El Salvador	Mozambique	Vanuatu
Equatorial Guinea	Myanmar	Venezuela
Eritrea	Namibia	Vietnam
Estonia	Nepal	Yemen, Republic of
Ethiopia	Nicaragua	Zambia
Fiji	Niger	Zimbabwe
Gabon	Nigeria	
Gambia, The	Oman	

²⁹⁷ "World Economic Outlook: Country Composition of WEO Groups," International Monetary Fund, last modified April 2010, accessed November 22, 2010, <http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/groups.htm#oem>.

Table 2. Summary of Illicit Markets and Values

Market	Estimated Value of Illicit International Trade
Drugs	\$320 billion
Humans	\$31.6 billion
Wildlife	\$7.8 to \$10 billion
Counterfeiting Total	\$250 billion
Counterfeit Pharmaceuticals	\$35 to \$40 billion
Counterfeit Electronics	\$50 billion
Counterfeit Cigarettes	\$2.6 billion
Human Organs	\$614 million to \$1.2 billion
Small Arms & Light Weapons	\$300 million to \$1 billion
Diamonds & Colored Gemstones	\$860 million
Oil	\$10.8 billion
Timber	\$7 billion
Fish	\$4.2 to \$9.5 billion
Art and Cultural Property	\$3.4 to \$6.3 billion
Gold	\$2.3 billion
Total	\$639 to \$651 billion
Approximation	\$650 billion



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