



# Examining the Dimensions, Scale and Dynamics of the Illegal Economy:

## A Study of Pakistan in the Region

December 2011

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## PREFACE

Pakistan is uniquely placed in the crime and illegal economy nexus due to its geographic location. This study - the first of its kind in Pakistan - has been commissioned by the United Nations Office on Drugs and Crime (UNODC) to assess the size, nature and dynamics of the illegal economy in Pakistan and inter-linkages with the region and beyond. The focus is on the dominant forms of transnational organized crime present within the region, specifically, drugs and precursors trafficking, migrant smuggling and human trafficking, arms trafficking, illegal timber trade and kidnapping for ransom.

These forms of crime have become a threat to governments, civil societies and economies, undercutting the rule of law and hampering the achievement of Millennium Development Goals. Traditionally, these issues have been left at the edge of development discourse but there is now an acknowledgement at the highest levels in the United Nations and by leading institutions like the World Bank and the World Economic Forum that security issues need to be mainstreamed into traditional development paradigms. The United Nations has recently established a Task Force to focus the United Nations Development Group (UNDG) regional teams, United Nations country teams and peacekeeping and political field missions to effectively address these issues.

The key finding of this study is that in an inter-connected world, countering the illegal economy is a shared responsibility. It is striking that most illicit flows go to major economic powers. In other words, the world's biggest trading partners are also the world's biggest markets for illicit goods and services. This reflects the extent to which organized crime has become linked to the global economy, and vice versa, through the illicit trade of legal products (like natural resources), or the use of established banking, trade and communications networks (financial centres, shipping containers and the internet).

The response requires increased international cooperation within the context of an integrated, comprehensive and cost-effective strategy with a balanced approach between development and security, and respect for national sovereignty and human rights. It is important that awareness is increased and collective action is taken against the threat of organized crime and its resultant illegal economy.

Studies like this make an important contribution to understanding the nature and dynamics of the illegal economy and identifying where interventions are most likely to be successful. UNODC will continue to contribute to the research effort by collecting and analyzing data, and helping to build the research capacity of national institutions and agencies.

In closing, we would like to underline that despite the constraints which hinder research on organized crime and illicit trade, and the preliminary nature of the findings and recommendations, it is quite possible to start an effort to understand the dynamics and nature of the illegal economy in a country and its wider impact on that country and beyond. We anticipate and hope that this study shall provoke debate and further research for better policy and programme responses.



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## EXPLANATORY NOTES

### Types of drugs:

Cannabis – the dried preparation of the flowering tops or other parts of the cannabis plant for its use as a mildly psychotropic drug.

Hashish – an extract of the cannabis plant, containing psychoactive resins.

Heroin – a highly addictive semi-synthetic analgesic drug, derived from morphine, often used illicitly as a narcotic producing euphoria.

Morphine – an analgesic and narcotic drug obtained from opium.

Opiate – A subset of opioids comprised of the various products derived from the opium poppy plant including opium, morphine and heroin.

Opioid – A generic term applied to alkaloids from opium poppy, their synthetic analogues, and compounds synthesized in the body.

Opium – a reddish-brown heavy-scented addictive drug prepared from the opium poppy, used as a narcotic and in medicine as an analgesic.

Poppy – a herbaceous plant with showy flowers, milky sap, and rounded seed capsules. Many *poppies* contain alkaloids and are a source of drugs such as morphine.

Poppy straw – All parts (except the seeds) of the opium poppy, after mowing.

**Hawala and Hundi:** The terms Hawala and Hundi refer to the commonly used Informal Value Transfer System (IVTS) used by migrant workers to send money from their host countries to the destination countries: usually their families back home.

**Human trafficking and migrant smuggling:** International definitions distinguish between human trafficking and migrant smuggling. Briefly, human trafficking is about exploiting a person against his or her will in order to make a financial or material profit whereas migrant smuggling is about facilitating one or more individuals' illegal entry or stay in a country. In Pakistani law, this distinction is not clear. In an interview with Immigration Wing officials of the FIA, they indicated that “smuggling” refers to a situation where a border is crossed, whether voluntarily or otherwise, whereas “trafficking” can take place internally also. For purposes of this paper, we will stay with the international definitions.

**Maps:** The boundaries and names shown and the designations used on maps do not imply official endorsement or acceptance by the United Nations. A dotted line represents approximately the line of control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

**Conversion rates:** A conversion rate of 1 US\$ = 85 PKR has been used in this study, unless mentioned otherwise.



## ACRONYMS

<b>AJ&amp;K</b>	Azad Jammu & Kashmir	<b>MSA</b>	Maritime Security Agency
<b>AMLA</b>	Anti-Money Laundering Act	<b>NAB</b>	National Accountability Bureau
<b>ANF</b>	Anti-Narcotics Force	<b>NARA</b>	National Alien Registration Authority
<b>APTTA</b>	Afghan-Pakistan Transit Trade Agreement	<b>NBFC</b>	Non-banking financial company
<b>ATA</b>	Anti-Terrorism Act	<b>NGO</b>	Non-Government Organization
<b>ATS</b>	Amphetamine-type stimulants	<b>NHA</b>	National Highway Authority
<b>ATTA</b>	Afghan Transit Trade Agreement	<b>NTC</b>	National Trade Corridor
<b>CAR</b>	Central Asian Republics	<b>NWFP</b>	North West Frontier Province
<b>CPLC</b>	Citizens Police Liaison Committee	<b>PA</b>	Political Agent
<b>CNSA</b>	Control of Narcotic Substances Act	<b>PACHTO</b>	Prevention and Control of Human Trafficking Ordinance
<b>CCP</b>	Code of Criminal Procedure	<b>PC</b>	Planning Commission/Pakistan Customs
<b>CTR</b>	Currency Transaction Reports	<b>PCG</b>	Pakistan Coast Guards
<b>DFI</b>	Direct Foreign Investment	<b>PIPS</b>	Pakistan Institute of Peace Studies
<b>EU</b>	European Union	<b>POWA</b>	Protection of Women Act
<b>FATA</b>	Federally Administered Tribal Areas	<b>PPC</b>	Pakistan Penal Code
<b>FBR</b>	Federal Board of Revenue	<b>PRGF</b>	Poverty Reduction and Growth Facility
<b>FBS</b>	Federal Bureau of Statistics	<b>PSLM</b>	Pakistan Social and Living Standards Measurement Survey
<b>FC</b>	Frontier Corps	<b>PTCL</b>	Pakistan Telecommunications Company Limited
<b>FCR</b>	Frontier Crimes Regulations	<b>SBA</b>	Stand-by Agreement
<b>FIA</b>	Federal Investigation Agency	<b>SBP</b>	State Bank of Pakistan
<b>FMU</b>	Financial Monitoring Unit	<b>STR</b>	Suspicious Transaction Reports
<b>FY</b>	Fiscal Year	<b>UAE</b>	United Arab Emirates
<b>GB</b>	Gilgit-Baltistan	<b>UNEP</b>	United Nations Environment Programme
<b>GDP</b>	Gross Domestic Product	<b>UNDAF</b>	United Nations Development Assistance Framework
<b>GST</b>	Goods and Services Tax	<b>UNDG</b>	United Nations Development Group
<b>HIES</b>	Household Income and Expenditure Survey	<b>UNODC</b>	United Nations Office on Drugs and Crime
<b>HRCP</b>	Human Rights Commission of Pakistan	<b>WAPDA</b>	Water and Power Development Authority
<b>IATF</b>	Inter-Agency Task Force	<b>WCS</b>	Wildlife Conservation Society
<b>ICCPR</b>	International Covenant on Civil and Political Rights	<b>WDR</b>	World Drug Report
<b>IMF</b>	International Monetary Fund	<b>WGI</b>	World Governance Index
<b>IVTS</b>	Informal Value Transfer System		
<b>KKH</b>	Karakoram Highway		
<b>KPK</b>	Khyber Pakhtunkhwa		
<b>LSM</b>	Large-scale manufacturing		
<b>MOI</b>	Ministry of Interior		



## EXECUTIVE SUMMARY

The value of the global illicit economy in 2009 was estimated at US\$ 1.3 trillion and growing – it is now thought to represent 7 to 10 percent of the global economy. In some countries, such as Afghanistan, illicit trade is the major source of income. While the illegal economy raises the cost for conducting legal economic activities, it also weakens states, threatens development opportunities, undermines the rule of law and keeps countries trapped in a cycle of poverty and instability.<sup>1</sup> Proceeds of the illegal economy find their way into the world's formal economies every year through money-laundering and acquisitions of legal assets. Illegal economic activities also fund the activities of international organized crime groups and finance insurgent groups active in conflict zones throughout the world.

Despite the impact of these threats on human security at multiple levels, the illegal economy is unfortunately a neglected area within the mainstream development discourse. An analysis of the links between the illegal economy and organized crime and their collective impact on human security requires looking beyond the discrete and traditional security and development paradigms. Governments often see addressing the illegal economy as a low priority issue and development assistance available to counter its negative impacts is minimal. In a networked world, this oversight creates a vicious cycle of governance failures and economic disparities creating more opportunities for the illegal economy to flourish.

Pakistan is uniquely challenged by the nexus between crime and the illegal economy due to its geographic location. The country's relations with its neighbors, particularly Afghanistan, are complicated by cross-border criminality, which in turn creates a thriving regional illegal economy orchestrated by complex informal and formal organized criminal networks of supplier rings, wholesalers, financiers, protectors and patrons. The situation within the region has implications for the broader global community as the risks created by illegal and criminal economic activities spread and multiply far beyond. For example, illegal drug trafficking risks human health globally; illegal trade that funds insurgencies poses not just local and regional security challenges but also to more distant locations.

The value of components of the illegal economy, such as drugs and their precursors, multiply exponentially as they reach global markets. The proceeds of illegal and criminal economic activities, in proportion to GDP, appear to be generally higher in developing countries.<sup>2</sup> Even when illegal flows of goods and other criminal economic activities are small relative to global economic output, they can have an outsized effect because the money that accrues to individuals involved in illegal economic activities can dwarf salaries and other budgetary support that a national government can offer its citizens.

The primary aim of this study is to estimate the scale of the illegal economy in Pakistan, understand its dynamics, including its links with regional and global security, and provide policy recommendations. The study focuses on five key crime types that contribute to risks to national, regional and global security and development: (i) trafficking in drugs and their precursors; (ii) migrant smuggling and human trafficking; (iii) arms trafficking; (iv) illegal timber trade; and (v) kidnapping for ransom.<sup>3</sup> The chapters on trafficking in drugs and their precursors and migrant

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<sup>1</sup> World Economic Forum, *Global Risks 2011, Sixth Edition*, January 2011.

<sup>2</sup> UNODC, *Estimating Illicit Financial Flows Resulting from Drug Trafficking and other Transnational Organized Crimes*, 2011.

<sup>3</sup> There are other forms of organized crime in Pakistan (such as extortion, murder for hire, cyber-crime, fraud, burglaries, theft, robberies, loan sharking or protection racketeering etc) which, despite being economically significant,

smuggling and human trafficking are the strongest as they build upon a pre-existing body of knowledge. Information on arms trafficking, timber trade and kidnapping for ransom is limited so the analysis is more basic and tentative.

The study begins with a brief analysis of the trends in legal or documented economy. It then moves on to analyze institutional frameworks and highlights key gaps therein. An analysis of key crime types then follows, after which the proceeds of crime are estimated. The study also tries to follow the money trail and the impact of illegal trade on the economy, the government and the society. It concludes with key policy recommendations.

This is a first research of its kind in Pakistan and one of the few known systematic attempts to link organized crime with its economic fallout. While the aim is to estimate the size of the proceeds from different crime types, the quantitative estimates are necessarily imprecise, offered only to give a sense of the relative volume of their magnitude. The methodology used to calculate the size of the proceeds for each crime type is the standard national income expenditure approach. There are varied ways of calculating and analysing the illegal economy, which may yield different results. Quantitative estimates in that sense need to be viewed as indicative rather than definitive. It is important to note that the estimates are on the conservative side and the actual proceeds are likely to be much higher.

The most important challenge relates to data collection and verification. This is no easy task: data on clandestine markets is limited. One of the key findings of this study is that the information that does exist is often outdated, incomplete and frequently conflicting. The quality of data also varies for each crime type (see Figure 1). There is an across-the-board need to improve the quality and quantity of data on all crime types.

Figure 1: Risk and data for evidence-based responses

	Drugs and precursors	Human trafficking and migrant smuggling	Arms trafficking	Timber Trade	Kidnapping for ransom
Global risk <sup>4</sup>	HIGH	MEDIUM	HIGH	MEDIUM	HIGH
Data quality	MEDIUM	POOR	POOR	POOR	POOR

This study offers a preliminary and exploratory analysis, which is necessarily constrained by the lack of reliable information. This, however, may prove to be the precursor to larger and more in-depth studies in the future. The study, indeed, flags emerging areas of concern with the hope that future research would benefit from the analysis of inter-linkages of different crime types. It also aims at creating a deeper understanding of the modus operandi of the networks involved in the illegal economy. The authors also hope that the publication of this study will ignite and accelerate the collection and sharing of better data.

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have been deliberately excluded from the study because they are primarily domestic crime activities and have weak regional/international linkages.

<sup>4</sup> Global risk as measured in this study refers to the effect that the organized crime type makes on regional and international security environment. Drugs and their precursors, arms trafficking and kidnapping for ransom pose a high global risk as their proceeds fund insurgents and militant groups responsible for threatening international security situation.

## Key findings

Pakistan's GDP was approximately US\$ 169.6 billion in 2009/10.<sup>5</sup> In 2003, the size of the informal economy was estimated at 30 percent of the GDP. The State Bank of Pakistan (SBP) suggests that this had dropped to below 20 percent by 2008. This SBP estimate means that Pakistan's informal economy was approximately US\$ 34 billion in 2009/10. The illegal economy is a sub-set of the informal economy and includes all injections into the overall economy (both formal and informal) from illegal activities.<sup>6</sup> Its size and scale has to-date not been investigated in Pakistan.

Illegal trade in drugs, human beings, arms, natural resources and money has a multi-faceted impact on the legal economies, governments and societies far beyond where such illegal economic activities are primarily conducted. Phenomenal financial flows that result from these illegal activities ensure that they remain economically viable for those involved in them thereby perpetuating and reinforcing them.

Keeping in mind regional economic disparities within Pakistan is crucial to analyze the country's illegal economy because it is the least-developed regions - Khyber Pakhtunkhwa (KPK), Balochistan and the Federally Administered Tribal Areas (FATA) - where organized crime is most deeply imbedded. It is no coincidence that these areas border Afghanistan. Economic stress that people in these areas face boosts the chances of their participation in illegal activities, including drug smuggling, arms smuggling and other criminal activities, further degrading the security environment.

The findings of this study, reflected in Figure 2, indicate that the most lucrative business for organized criminals is trafficking in drugs and their precursors, followed by migrant smuggling and human trafficking, arms trafficking, illegal timber trade and kidnapping for ransom. This calculation is based on available information and corroborated by interviews and consultations with law enforcement agencies and economists. International trends also support this calculation; the biggest portion of income for transnational organized crime comes from illegal drugs, accounting for somewhere between 17 percent and 25 percent) of all crime proceeds; the drug trade also accounts for about half of the transnational organized crime proceeds and is anywhere between 0.6 percent and 0.9 percent of the global GDP.<sup>7</sup>

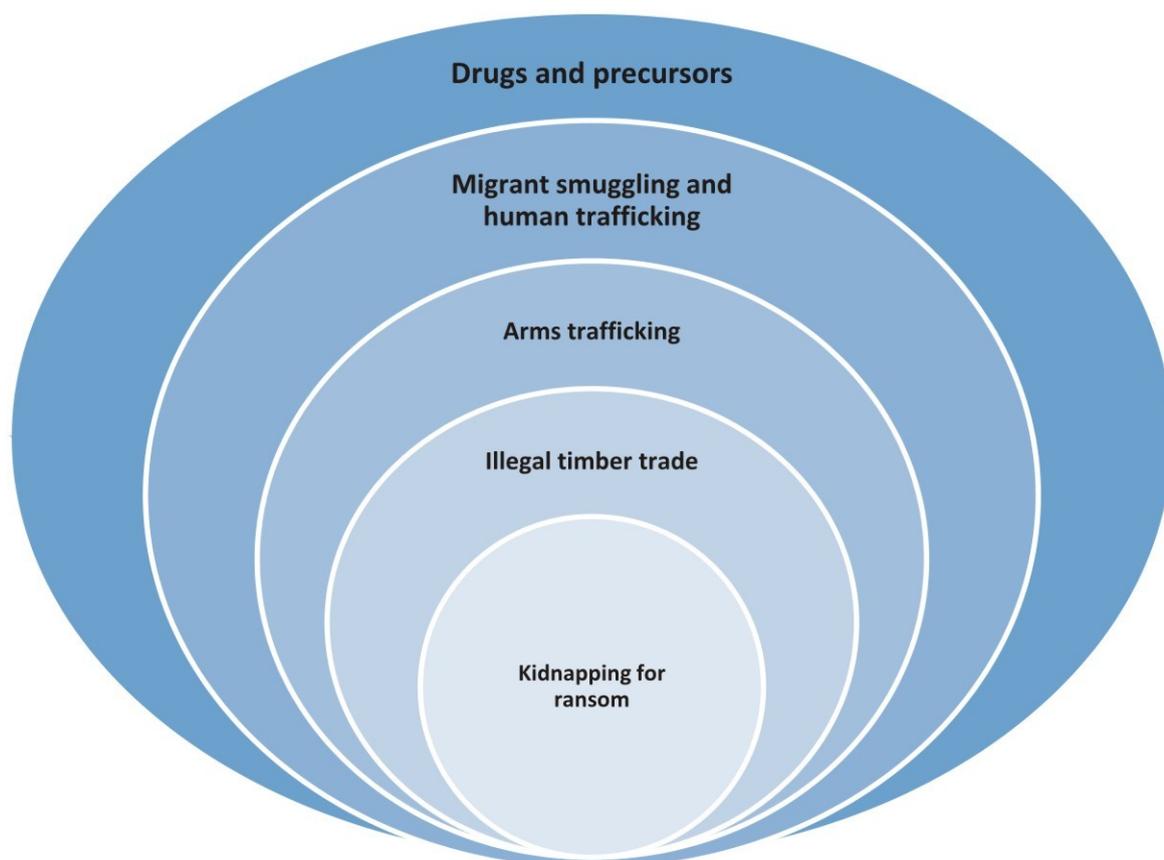
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<sup>5</sup> This was GDP at current factor cost as reported in the Ministry of Finance, Economic Advisor's Wing. 2010. Pakistan Economic Survey, Statistical Appendix. Table 1.5.

<sup>6</sup> Informal economy refers to all non-taxed and undocumented economic activity.

<sup>7</sup> UNODC, *Estimating Illicit Financial Flows Resulting from Drug Trafficking and other Transnational Organized Crimes*, 2011.

Figure 2: Scaling the relative size of the illegal economy in Pakistan



### Drugs and precursors

Pakistan's geographic proximity to Afghanistan places it in a vulnerable position with respect to the illicit trafficking of opiates and their precursors. Afghanistan is now the source for more than 90 percent of the world's opium and a significant cannabis producer – much of it harvested in provinces bordering Pakistan. Consequently, large quantities of opium, heroin and cannabis are trafficked via Pakistan to Iran, the Middle East, Africa, East Asia and Western countries. Approximately 44 percent of the heroin produced in Afghanistan is estimated to be trafficked through Pakistan.<sup>8</sup> Pakistan is also a major transit country for the precursors entering Afghanistan. All acetic anhydride used for heroin production has to be smuggled into Afghanistan as no production facilities of the substance exist in the country and there is no reported legitimate use of the chemical there.<sup>9</sup> Diversion of imported acetic anhydride from Pakistan to Afghanistan and its direct illegal import into Afghanistan are highly lucrative since its price in Afghanistan has risen rapidly in the recent years. In fact, trafficking acetic anhydride is potentially even more profitable than trafficking opium.

Pakistan is facing another threat by the use – and possible production – of synthetic drugs. Some countries have seized synthetic drugs and their precursors which seem to have originated from or been destined for Pakistan. Data on synthetic drugs is scarce, which is why synthetic drugs have been excluded from the calculations of the drug proceeds in this study.

The global opiate market was valued at US\$ 68 billion in 2009 with heroin consumers contributing US\$ 61 billion. The value of the world heroin market tends to increase according to the number of

<sup>8</sup> 160 mt of 365 mt of Afghan heroin was trafficked into the international market via Pakistan. UNODC, *World Drug Report*, 2011.

<sup>9</sup> UNODC, *Precursors Trafficking and Diversion in Pakistan*, March 2010.

international borders crossed by traffickers and profits from drug trafficking increase exponentially as it moves along trafficking routes. Criminal networks benefit by diluting the substance and increasing its street prices.<sup>10</sup> The destination value of the heroin transiting Pakistan is approximately US\$ 27 billion and the local value of the illegal drug and precursors trade in Pakistan has an estimated worth between US\$ 910 million and US\$ 1.2 billion.

### Human trafficking and migrant smuggling

Pakistan is a destination, transit and source country for both human trafficking and migrant smuggling. Human trafficking to and from Pakistan includes the trafficking of mostly women and children for sex trade, child labor, and bonded labor.<sup>11</sup> In Pakistan's context, migrant smuggling is more prevalent than other forms of human trafficking and it primarily involves illegal emigration to Europe and the Middle East. Pakistan is also a transit country for illegal emigration of Afghans to Europe, the Middle East and, to a lesser extent, Australia.

Migrant smuggling to Europe has the largest economic footprint in terms of fees paid to smugglers and the numbers of migrants involved. In recent years, with significantly strengthened immigration systems in Western countries and in the Middle East, the most common mode of migration has become the use of irregular border crossings - traveling overland all the way to Europe, or using sea routes to reach the Middle East.

In terms of the networks involved, indications are that those engaged in migrant smuggling do not overlap with those involved in other types of smuggling.<sup>12</sup> The networks moving illegal goods appear to remain separate from those moving people illegally. There is also a lower level of social stigma attached to migrant smuggling compared to drug trafficking, suggesting that this gives migrant smugglers a strong incentive to stay away from drug traffickers.

Estimating the size of migrant smuggling and human trafficking economy is challenging given the lack of data, as well as difficulties of extrapolating trends from interceptions and deportations. Conservative calculations put the size of the proceeds of migrant smuggling and human trafficking from Pakistan at around US\$ 107 million.

### Arms trafficking

The proliferation of small arms in Pakistan reportedly originates from two sources. The first is diversions from the estimated US\$ 2 billion worth of arms which were meant to transit through Pakistan to Afghanistan between 1979 and 1989.<sup>13</sup> According to some estimates, 70 percent of these arms never made it into Afghanistan and ended up in black markets in Pakistan. The second major source is the unorganized and largely unregulated private ordinance manufacturing enterprises in the towns of Darra Adam Khel and LandiKotal in FATA. Darra Adam Khel alone is estimated to have some 2600 arms manufacturing outlets, with a capacity to produce 100 AK 47 assault rifles per day.<sup>14</sup>

The inter-linkages between arms trafficking and other forms of organized crime are evident although under-researched. Arms and ammunition seizures in Pakistan have often been made along with

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<sup>10</sup> UNODC, *The Global Afghan Opium Trade: A Threat Assessment*, 2011.

<sup>11</sup> For the purposes of this paper, the focus is only on out-bound international movement. Limited comment will be made on forms of domestic and in-bound transnational trafficking linked to bonded labour or commercial and non-commercial sexual exploitation within the country.

<sup>12</sup> UNODC, *Crime Facilitating Migration from Pakistan and Afghanistan*, January 2010.

<sup>13</sup> Khan, R. August 2009, *The Crisis in Pakistan: Facing Serious Threats to Human Security*, NGO Committee on Disarmament, Peace & Security.

<sup>14</sup> Awan, Farooq A., et. al. *Dewarriorization: Problems, Challenges and Viable Strategy*, 2010.

seizures of drugs. Drug trafficking groups are also generally known to be well armed, reportedly possessing weapons ranging from small arms to anti-aircraft guns.<sup>15</sup>

The analysis of arms trafficking is again limited by the lack of data on the proceeds from production and sale of illegal weapons manufactured within Pakistan. The focus of this study is only on the best known and most popular weapon in Pakistan, the AK 47. The economic value of its production and trade is estimated to be US\$ 52 million. It is likely that the actual figure is in excess of this estimate, due to the undocumented nature of the firearms black market and the lack of accurate, complete and reliable data about the current trends in prices and production.

### Illegal timber trade

Timber prices in Pakistani cities are generally higher than the world average. This provides an incentive for timber contractors to harvest the country's state-controlled natural forests beyond sustainable and legal limits. Additionally, high value timber varieties get smuggled into Pakistan from Afghanistan. Illegally harvested timber is mostly consumed domestically while the high value cedar wood from Afghan and domestic sources are smuggled out of Pakistan, mainly to Dubai. Pakistan formal imports of timber are less than one-fifth of local timber production. There is no formal import of fuel wood.

Warlords in Afghanistan have been using illegal timber trade as a source of income since the 1980s.<sup>16</sup> North Waziristan reportedly has a long established timber market and there are reports of protection money being extracted from the trade. Non-state actors in Swat had reportedly 'benefited' from timber trade by levying a 10-20 percent tax on every timber shipment out of that region.<sup>17</sup> Between 2007 and 2009, Swat reportedly suffered more deforestation than in the entire decade prior to that.

This study estimates that the proceeds from illegal timber trade - consisting of illegal logging in Pakistan and the smuggling of illegally logged timber from Afghanistan into Pakistan - stand at around US\$ 23 million.

### Kidnapping for ransom

Anecdotal evidence and police data from all major cities of Pakistan indicate that cases of kidnapping for ransom have been on the rise since 2007. Organized gangs involved in kidnapping for ransom often have a threefold set-up. One team is responsible for kidnapping and handing over the victim to a middleman; the middleman then transfers the kidnapped person to a third party which keeps him hostage until it strikes a successful bargain with his family. The hostages are usually kept in areas - such as the tribal regions - where law enforcement agencies have weak control. While organized gangs play a large role in Pakistan's kidnapping industry, they are not the only ones involved. Many smaller gangs or petty criminals are also active, especially in small rural communities or within Punjab's kinship-based clans where the victims are usually known, or even related, to the culprits. Reports suggest that most of the groups involved in kidnapping for ransom are multi-ethnic although there are some exclusively Pashtun groups which also have members belonging to different regions in Afghanistan.

The proceeds from kidnapping are estimated at just over US\$ 10 million. This is a conservative estimate because of the absence of reliable data on ransoms paid, as well as the under-reporting of the crime (primarily out of fear for the life of the victim).

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<sup>15</sup> UNODC, *Global Afghan Opium Trade: A Threat Assessment*, 2011.

<sup>16</sup> For examples of how this was done, see Yusufzai, R., *Afghanistan: Country Risk Profile*, 2000, Swiss Peace Foundation · Institute for Conflict Resolution, Bern., and Schetter, C., *The 'Bazaar Economy' of Afghanistan: A Comprehensive Approach in Afghanistan – A Country without a State?*, Noelle-Karimi, et al, Eds., Frankfurt A.M.: IKO Verlag.

<sup>17</sup> The News, *Over 70 percent Forests Cut When Taliban Controlled Malakand*, 05 February 2010.

## The money trail

The illegal trade in goods and people examined through this study results in a flow of money that is injected into the world's formal economies every year through money-laundering and acquisition of legal assets. It also funds the activities of international organized crime groups and finances non-state actors active in conflict zones across the world.

Once criminal money enters the formal financial system, it becomes much harder to trace its origin. The rate of intercepting such money is quite low (less than 1 percent at the global level). Such low rates of inception offer a strong incentive for shifting illegal proceeds into formal financing channels to acquire company stocks, bonds, real estate and other investment grade assets. The most recent step taken by Pakistan to combat money laundering is the enactment of the Anti-Money Laundering (AML) Act 2010. While the act is a positive development, there are some loopholes in it which need to be addressed to make it more effective.

Pakistanis heavily rely on Informal Value Transfer System (IVTS)<sup>18</sup>, commonly known as Hawala/Hundi, to send and receive money to and from other countries.<sup>19</sup> Primary international connections of Pakistani IVTS are Afghanistan, UAE, Europe (especially the UK) and China. Although Pakistan's formal financial sector has been developing in recent years, informal systems still offer more advantages than the formal systems of receiving and transferring money. For instance: the authorities cannot access the details of transactions made through IVTS; informal systems are highly responsive to the needs of retail users; they charge competitive fees; and rely on personal trust and social sanction rather than commercial logic or legal frameworks. Although most of the transactions under IVTS involve remittances, these systems are also prone to misuse for criminal trading, for transferring the proceeds of crime and for financing terrorism.

Experts are divided on the extent to which organized criminals use Hawala networks and the lack of information makes it difficult to make a definitive assessment either way. Some believe that it is an important conduit for sustaining criminal networks by enabling the transfer of the proceeds of crime whereas others interviewed for this study believe that organized criminals do not risk using public service platforms, even if they are informal. While it is likely that criminal groups exploit Hawala network, there is little reason to believe that this is their only or preferred method or that Hawala is more vulnerable to abuse than the regulated sector.

## The impact of the illegal trade

The illegal trade in drugs, human beings, arms, natural resources and money has a multi-faceted impact on the legitimate economy, government, society and people, which extend far beyond the local context.

The loss to Pakistan's formal economy through illegal trade is very high as it distorts decision making and the allocation of resources as well as impacts effective service delivery. It is one of the primary factors increasing the cost of doing business in Pakistan and discouraging international investors.<sup>20</sup> The illicit money flows create real estate bubbles, result in rent-seeking activities and crowd out the documented economy.

The growth of organized crime and related corruption undermine the very foundations of the state, simply by creating parallel structures or systems of governance on which citizens become

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<sup>18</sup> Nikos P., *Informal Value Transfer Systems and Criminal Organizations; a Study into so-called Underground Banking Networks*, Ministry of Justice of the Netherlands, 1999.

<sup>19</sup> Hawala/Hundi are two interchangeable terms used to describe an IVTS method. For the purposes of this study, the two concepts are essentially the same: facilitating the transfer of value over distance without the immediate, or in some cases ultimate, need for cash. This study will use the term Hawala.

<sup>20</sup> Worldwide Governance Indicators <[http://info.worldbank.org/governance/wgi/sc\\_chart.asp](http://info.worldbank.org/governance/wgi/sc_chart.asp)> accessed 27 July 2011.

increasingly reliant. Governance systems and rule of law institutions are weakened by rent-seeking activities; chances for economic, political and social development are diminished and the prevention of conflicts becomes challenging. There is growing evidence that the proceeds of crime are being used to fund non-state actors, posing an additional challenge for the Government of Pakistan, with implications extending beyond Pakistan.

According to an opinion poll conducted in spring 2009, 93 percent of Pakistanis surveyed consider 'crime' as the biggest problem they face.<sup>21</sup> With increase in public insecurity, it is individuals and societies that suffer, particularly, from displacement. Women, children and the elderly are the most vulnerable groups in this regard. Drug use increases the costs of health care by require expenditure on the treatment and rehabilitation of drug users. The illegal timber trade causes significant environmental damage. Irregular migration has adverse consequences for migrants. This is most obviously the case for the victims of trafficking who are usually women or children and are often exploited in domestic work or the sex industry. Research on the smuggling of asylum seekers, in particular, has demonstrated that such smuggling can also expose migrants to economic, social and political vulnerability.

### Recommendations

The illegal economy is dynamic and unconstrained by the predictability of government systems. In order to be effective, strategies to counter the illegal economy must be underpinned by innovation and change. The broad policy recommendations outlined below are addressed to a range of stakeholders including the Government of Pakistan, its development partners and the civil society.

#### 1. Mainstream

Organized crime impacts human security at multiple levels and the measures to counter the illegal economy need to be made a part of mainstream development frameworks. For the Government, this means the inclusion of measures countering organized crime into the general growth frameworks; as things stand now, organized crime is addressed by stand-alone policies (e.g. the anti-narcotics policy), which remain under-funded. Pakistan's development partners, too, should address illegal trade and organized crime as part of their overall aid programs. The United Nations Development Assistance Framework (UNDAF) in Pakistan will incorporate rule of law and illicit trafficking and border management issues in the second generation One UN Program (OP II) that will begin in 2013 for a period of five years (until end-2017).

#### 2. Capacity-building

Core capacities of law enforcement agencies need to be enhanced to reduce illegal trade and manage Pakistan's international borders more effectively. Foundational and specialized training and equipment needs to be provided to law enforcement agencies to support them in their core functions of investigations, interdictions and prosecutions. Capacities to address legislative and regulatory gaps should also be strengthened. Inter-agency collaboration is the key as are Government capacities for information collection and analysis to enable evidence-based decisions.

#### 3. International cooperation

International cooperation – both on the supply side and on the demand side – is urgently needed. Stronger links between law enforcement agencies in the region and beyond to ensure transparency of financial flows will improve attempts to track and control the flows of illegal capital. Links between law enforcement agencies, development practitioners and

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<sup>21</sup> Survey conducted by the Pew Global Attitudes Project 'Growing Concerns about Extremism, Continuing Discontent with U.S.', 13 August 2009. 'Crime' tops the list of problems Pakistanis face.

civil society are currently lacking and need to be developed. In addition, reducing variation in different countries' capacity to regulate and enforce will inhibit illegal activities from shifting to the least vigilant jurisdictions. Extending and harmonizing national laws containing extraterritorial provisions can another viable solution.

#### 4. Demand-side intervention

A large portion of the demand for illegal goods exists in advanced economies. Addressing the demand for illegal activities requires a long-term investment of resources into somewhat normative activities. A greater understanding of the human and economic impact of engaging in illegal trade will reduce demand for illegal goods in advanced economies. This implies a focus on education, training in ethics and the construction of new norms. These interventions can be reframed as a means to supporting economic growth and human security. Such a reframing may shift priorities and behavior while driving greater cooperation among a broader range of institutions.

#### 5. Research

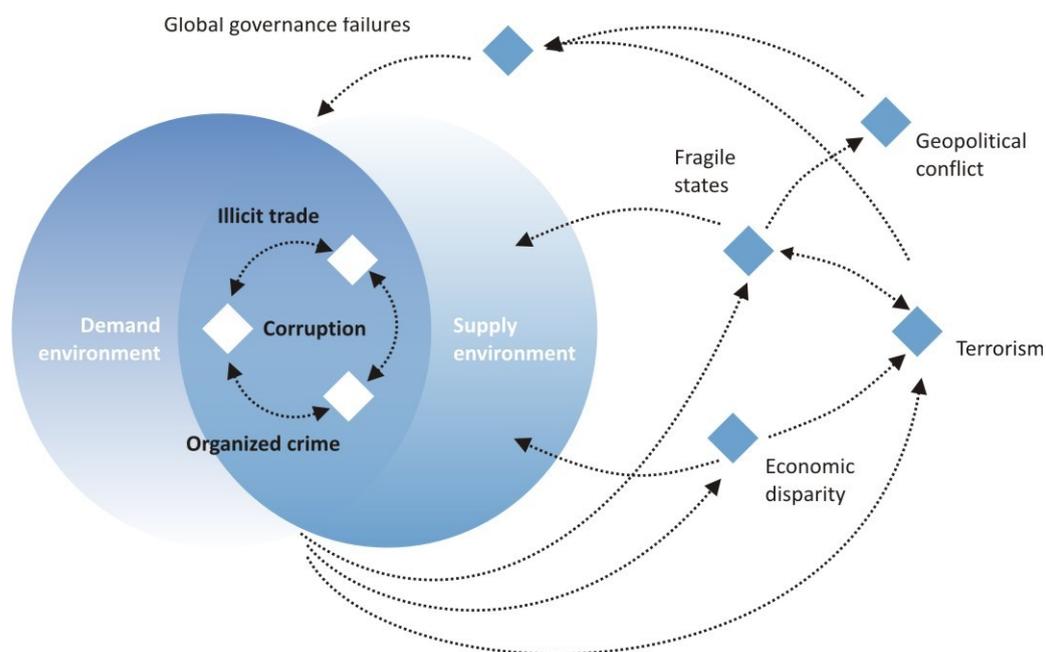
Enhancing Government capacities in information management - including data collection, analysis and reporting - should be given a priority and national, regional and potentially even global information sharing systems developed. More in-depth research into the illegal economy and organized crime needs to be undertaken in order to better position countering development strategies. This estimate does not include the proceeds that result from forms of forced labor/slavery such as bonded labor and commercial sexual exploitation.



## 1. INTRODUCTION

The World Economic Forum's 2011 Global Risk Report identifies the illegal economy as one of its three clusters of risks in focus. The report stresses that the highly interconnected nexus of illegal trade, organized crime and corruption (representing the illegal economy) is of central importance to the global risk landscape. As Figure 3 illustrates, this nexus heavily influences three other important global risks – fragile states, terrorism and geopolitical conflict – which, in turn, have a significant and negative impact on global stability. While global governance failures have created a growing space for illegal activities, these activities have, in turn, tended to undermine efficient global governance.

Figure 3: System diagram for risks associated with the illegal economy nexus



The World Economic Forum estimates that illegal trade is 7-10 percent of the global economy. The best estimates of the criminal proceeds seemed to fluctuate around 3.6 percent of global GDP or US\$ 2.1 trillion in 2009.<sup>22</sup> In some countries, such as Afghanistan, the size of the illegal economy exceeds the size of legal economy. Even though flows of illegal goods and criminal activity are small relative to the global output, their impact on fragile states multiplies as the phenomenal financial and economic benefits they create for individuals and groups involved in them can dwarf national salaries and relief and support that governments can offer through their annual budgets.<sup>23</sup>

Table 1 is an example of attempts to judge the market size of illegal trade of different goods based on public sources.<sup>24</sup> Various sources concur in ranking illegal drugs the highest in generating the largest income for transnational organized crime.<sup>25</sup>

<sup>22</sup> UNODC, *Estimating Illicit Financial Flows Resulting from Drug Trafficking and other Transnational Organized Crimes*, 2011.

<sup>23</sup> World Economic Forum, *Global Risks 2011, Sixth Edition*, January 2011.

<sup>24</sup> The World Economic Forum's Global Agenda Council on Illicit Trade is currently developing a methodology to track effectively the global impact of these activities.

<sup>25</sup> World Economic Forum, *Global Risks 2011, Sixth Edition*, January 2011.

Table 1: Rough estimated market size of illicit goods based on public sources

Illicit goods	(in US\$ billion)
Counterfeit pharmaceutical drugs	200
Prostitution	190
Marijuana	140
Counterfeit electronics	100
Cocaine	80
Opium and heroin	60
Web video piracy	60
Software piracy	50
Cigarette smuggling	59
Human trafficking	30
Environmental crimes and natural resources trade	20
Logging	5
Art and cultural artifacts	5
Small arms	1

Source: World Economic Forum, 2011

In recent years, there has been an extensive debate on Pakistan's economy, including both the formal, documented, economy and the informal economy (often called black<sup>26</sup> economy).<sup>27</sup> Studies estimated the size of Pakistan's informal economy at close to 30 percent of GDP in 2003; the State Bank of Pakistan (SBP), however, suggests that this fell to just below 20 percent by 2008. This is still a substantial number and suggests that Pakistan's informal economy amounts to approximately US\$ 34 billion (given that the country's GDP was close to US\$ 170 billion) in 2011.

It is important to distinguish between the informal economy and the illegal economy. Informal economy refers to all economic activity that is not taxed and not documented. Some of this economic activity may be the result of financial crimes, such as tax evasion, but it may also cover small-scale businesses, transactions and barter trading among economic agents operating at too small a scale, or in too diffuse a manner, to feature in the record books. The illegal economy is a subset of the informal economy and refers to injections into the overall economy (both formal and informal) from illegal activities.

### 1.1 Scope of the research

The primary aim of this study is to estimate the scale of the illegal economy in Pakistan, identify key dynamics and provide policy and programme recommendations. The scale of the illegal economy in Pakistan is difficult to determine due to various reasons, most important of which is the lack of reliable data. It is, however, important to attempt to assess its size and the nature to devise policy responses. Such an assessment can also help in determining the extent of public expenditure on law enforcement and security and can indirectly influence public policy in key areas such as border controls, customs procedures and the viability of infrastructure and transport projects.

The study aims at analyzing the illegal economy within the overall context of the development agenda because evidence suggests that actors in the illegal economy increasingly have the capacity to impact how the documented economy functions - by creating an atmosphere of insecurity, by

<sup>26</sup> Although the term black economy is often used for informal economy, not all activities covered by informal economy are illegal or originate from trade in the black market.

<sup>27</sup> See, for example, Ahmed, Qazi Masood., and M. Haider Hussain, *Estimating the Black Economy Through Monetary Approach: A Case Study of Pakistan*. Social Policy Development Center, Karachi, 2006. and Arby, M. Farooq., et al., *The Size of the Informal Economy in Pakistan*. State Bank of Pakistan Working Paper Series No. 33, 2010.

undermining legitimate trade flows, by negatively affecting revenue collection and by increasing the need for resources to be channeled into law enforcement.

This study attempts to map out the proceeds from:

- Drugs and precursors trafficking;
- Human trafficking and migrant smuggling;
- Trafficking of arms;
- Illegal timber trade; and
- Kidnapping for ransom.

The selection of these crime types is based on their contributions to national, regional and global risks.

Trafficking in drugs and their precursors and human trafficking and migrant smuggling have been selected because they form a substantial proportion of the illegal economy in Pakistan and may be financing the activities of non-state actors. Trafficking in arms has been assessed because of its reported links with other forms of organized crime and contribution to instability in the region. Illegal timber trade has been included in the study because, anecdotal evidence suggests, like drugs, it may have regional security implications and may be serving as a possible income source for non-state actors. Kidnapping for ransom has been selected as a case study for similar reasons – it is reported to be an increasing source of income for non-state actors and its incidence, once confined mainly to the city of Karachi, appears to have spread across Pakistan, particularly to all major urban centers.

To the extent that this study estimates the size of the illegal economy, it is referring to the proceeds of crime from the five sectors described above. It does not refer to the entire illegal economy (which would cover the proceeds of numerous additional crimes), nor does it suggest that these illegal activities are the key generators of proceeds of crime in the economy. The domestic implications of international trafficking networks will not be discussed in detail in this study.<sup>28</sup>

Available research into illegal activities is often constrained by a lack of comprehensive and reliable data. This study relies upon the Government statistics, secondary research and qualitative research through key informant interviews and focus group discussions. Key informant interviews were carried out in all the provinces with:

- Officials of law enforcement agencies (including senior and junior-level officials in the field) including the Anti-Narcotics Force (ANF), Federal Investigation Agency (FIA), Pakistan Customs, Maritime Security Agency (MSA), Pakistan Coast Guards (PCG), Frontier Corps (FC), Pakistan Rangers and provincial police services.
- Non-Governmental Organizations (NGOs) relevant to the sector.
- Individuals involved in money transfers through the Hawala/Hundi systems.<sup>29</sup>

In general, secondary sources have been used for price data collection, particularly international and domestic drug consumption and export prices of drugs. The study also assumes that that the

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<sup>28</sup> Domestic sex trade, bonded labor, and the domestic drug supply networks will only be discussed to the extent that they link with the international trade.

<sup>29</sup> The study would have benefited from more contacts with stakeholders in illegal economy but such contacts were limited due to security reasons.

proceeds of the illegal activities are usually not remitted into Pakistan through formal channels.<sup>30</sup> An important indicator to gauge money involved could be to estimate the amount of profits retained or transferred into Pakistan compared to the profits siphoned out or parked abroad.

## 1.2 Methodology

The standard national income identity to calculate national gross domestic product (GDP) is as follows:

$$\text{GDP} = C + I + G + (X - M)$$

Where

C	=	Consumption
I	=	Investment
G	=	Government expenditure
X	=	Exports and
M	=	Imports

National income can be calculated using this identity in three ways: the income approach (where each element of the equation is estimated as an income accruing to households); the expenditure approach (where the elements appear as expenditures made by households and firms); and the output approach (where the value added of final outputs are calculated). All three should, theoretically, yield the same result, but the income and expenditure approaches are the ones most commonly used as they are more intuitive.

The basic purpose of the identity is to estimate the value of all final goods and services produced in a country. The concept can easily be extended to the illegal economy; estimation of the size of such an economy through the expenditure approach would entail accounting for all payments made by users of illegal goods or services to the providers (traffickers, kidnappers and others); the income approach would entail picking up the same data but from the perspective of the criminals – that is, estimating the incomes accruing to them from the illegal sale of contraband goods and services. Ideally, both approaches should yield the same result.

This study uses the expenditure approach to calculate the size of the illegal economy, stemming from its selected sub-sectors. This involves estimating the expenditures incurred by drug users, illegal migrants and families of kidnapping victims. To the possible extent, payments made to non-registered suppliers of arms and ammunition and smuggled timber will also be estimated. The expenditure approach is preferable to the income approach in this case, because the latter would require the rather impossible task of collecting data on incomes earned by organized crime groups.

With regard to the elements of the equation, a modified and pared down version of the National Income Identity is utilized:

$$\text{Size of the illegal economy (from each sub-sector)} = C - G + (X - M)$$

Investment has been removed from the identity when estimating the size of the illegal economy as it is simply impossible, given the data constraints, to calculate the value of capital that criminal elements use to run their businesses. While investment is undoubtedly taking place (to set up offices, install communications networks etc), it is very difficult to separate investment in illegal activities from legal business investment.

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<sup>30</sup> 'Some opium receipts never enter Afghanistan, as foreign buyers directly transfer the money to trafficker's offshore accounts'; UNODC and World Bank, *Afghanistan's Drug Industry*, page 31, 2009. This would probably be true for Pakistan though estimates of volume or percentages remain unexplored.

The other problematic conceptual issue concerns government expenditure. In the standard national income accounts, government expenditure enters as a positive in the national income identity – the more the government spends, the higher the national income is. Public administration is a big element in national accounts, which makes intuitive sense because government expenditure is geared towards promoting economic activity. In the case of the illegal economy though, government expenditure is aimed at checking the growth of criminal activity. Expenditure on law enforcement, which is the relevant G in this case, is negative, as it works to counter and contain the illegal economy.



## 2. CONTEXT

### 2.1 Institutional apparatus

Pakistan has a complex institutional framework and an extensive security apparatus in place to deal with organized or isolated crimes. Although law and order is a provincial subject under the 1973 Constitution, immigration and border control are national subjects being dealt with at the federal level. The Federal Government employs an estimated 210,000 law enforcement personnel<sup>51</sup> and the provincial governments employ around 442,000 law enforcement personnel,<sup>31</sup> spread across several agencies and involved in a wide variety of law enforcement, internal security and intelligence roles with country-wide jurisdiction.

Table 2 maps out the mandates of law enforcement agencies as they correlate to the different crime types examined in this study.

Table 2: Law enforcement mandates

	Drug and precursor trafficking	Human trafficking and migrant smuggling	Arms trafficking	Illegal timber trade	Kidnapping for ransom
Federally Administered					
Frontier Corps	✓	✓	✓		
Rangers	✓	✓	✓		
Federal Investigation Agency		✓			
Anti Narcotics Force	✓				
Customs	✓		✓	✓	
Pakistan Coast Guard	✓	✓	✓		
Maritime Security Agency	✓	✓			
Provincially Administered					
Provincial Police	✓	✓	✓	✓	✓
Frontier Constabulary	✓	✓	✓		
Levies	✓	✓	✓	✓	✓

Law enforcement agencies struggle to interdict trafficking and smuggling of various kinds and scales, particularly at the borders. Resources available to these agencies are insufficient and low personnel numbers make for sub-optimal investigations and enforcement. Information sharing between agencies is ad-hoc and their relationships are often competitive rather than cooperative.

A brief mapping of law enforcement agencies is presented below. The survey of each agency/ministry is not exhaustive and certain details, mandates and departments have been deliberately excluded on the basis of lack of relevance.

#### Federally administered agencies

**Frontier Corps (FC):** As Pakistan's paramilitary force, the FC is responsible for protecting and controlling the state's international borders. The FC is stationed in KPK and Balochistan and has staff strength of approximately 116,000. The FC is authorized to combat the smuggling and trafficking of weapons, arms and ammunition, explosives, excise products, drugs, psychotropic and chemical substances, among others.

<sup>31</sup> Abbas, H., *Reforming Pakistan's Police and Law Enforcement Infrastructure; Is it too Flawed to Fix?*, United States Institute of Peace, Special Report 266, February 2011. p. 4.

**Pakistan Rangers:** The Rangers are a paramilitary force reporting to the Ministry of Interior. They are sub-divided into Pakistan Rangers Punjab with approximately 16,000 personnel and Pakistan Rangers Sindh with a total force strength of 25,000 personnel. The Rangers primarily have anti-smuggling and border control mandates in addition to internal security duties.

**Federal Investigation Agency (FIA):** The FIA is responsible for enforcing immigration and human trafficking laws. Among its other responsibilities, it also deals with crimes of inter-provisional or transnational nature. It has the authority to carry out operations all over the country except in the FATA region. For its investigations and prosecutions, the agency follows the rules and procedures of the Code of Criminal Procedure, 1898. The total manpower of FIA is currently approximately 3000 in number.

**Anti-Narcotics Force (ANF):** Established in 1995, with a staff of 2600, the ANF is the lead drug control agency of Pakistan. The ANF has the primary responsibility of interdicting the production, trafficking and abuse of narcotics and illegal psychotropic substances. It collects intelligence and is responsible for arrests, drug seizures as well as investigation and prosecution of offenders. It is also in charge of locating and freezing drug-generated assets and restricting drug related money laundering. The ANF has a presence in strategic areas across Balochistan and KPK, although staff shortage and the limited availability of equipment for the detection of drugs and their precursors hamper field operations.

**Pakistan Customs:** The Customs department levies and collects customs duty on trade and prevents transnational smuggling by working against the movement of contraband goods. It is directly accountable to the Federal Board of Revenue and has a Directorate of Intelligence and Investigations (Customs and Excise) in all provincial capitals. The department also has specialized drug units located at Pakistan's international seaports and airports. The total strength of Customs is approximately 12,000 personnel.

**Pakistan Coast Guard (PCG):** The PCG is responsible for the security of Pakistan's coastline. The main responsibilities of the PCG are to counter drug trafficking, prevent irregular migration and arms smuggling, and counter terrorism. The PCG has powers to carry out seizures, arrests and investigation when required. The current total manpower of PCG is approximately 3000.

**Maritime Security Agency (MSA):** Headquartered in Karachi, the MSA is a 2,500-strong coast guard, responsible for patrolling Pakistan's territorial waters. As the MSA is the only agency operating in deep seas, it counters trafficking of drugs, their precursors as well as people.

### Provincially administered agencies

**Provincial police:** Pakistan has a police force numbering roughly 0.4 million. The provincial police forces are responsible for the prevention and detection of all types of crimes, maintenance of law and order, and protection of the life and property of citizens. The police's work covers the abduction and sexual exploitation aspects of human trafficking under kidnapping and sexual assault laws as defined by the penal code and the Protection of Women Act 2006, respectively. The provincial police forces do not have a presence along the borders or in tribal areas where other law enforcement agencies have been delegated police mandates.

**Frontier Constabulary:** The Frontier Constabulary has a total strength of 23,000 in KPK. It supports the provincial police in carrying out their functions and guards national installations in the province.

**Levies:** Levies are the police force found in FATA and Balochistan, numbering approximately 6,779 and 12,000 respectively. Levies are responsible for policing in tribal areas and carrying out law and order functions under their respective political agents.

## 2.2 Legislative frameworks

The regulatory and legislative regimes aimed at countering the illegal economy have a number of gaps effectively exploited by criminals. The key example of this is the continued implementation of the Frontier Crimes Regulation (FCR) 1901 in the FATA.<sup>32</sup>

The FCR was formulated by the British in order to draw a workable administrative code for the Pashtun and Baloch tribal belt. Today, Article 247 of Pakistan's Constitution excludes the tribal belt from Constitutional coverage and vests the power of law-making in the belt solely with the President of Pakistan. The FCR effectively takes FATA out of the mainstream political and administrative system and does not comply with the International Covenant on Civil and Political Rights (ICCPR). Recent reforms through amendments to the FCR and the extension of the Political Parties Order to Tribal Areas in August 2011 are promising developments but additional efforts are needed in order to bring the residents of FATA on a par with the citizens of the rest of the country.

The legislative regime governing different crime types assessed in this study is briefly profiled below.

### Drug control

#### Anti-Narcotics Policy 2010

The Anti-Narcotics Policy of Pakistan aims at strengthening and building the capacities of existing national law enforcement institutions, developing an effective coordination and control mechanism, increasing inter-agency and international cooperation and mobilizing the people of Pakistan to eradicate the use of drugs. The Anti Narcotics Policy was updated in 2011 following the 18th Amendment to the Constitution of Pakistan.

#### Control of Narcotics Substances (CNS) Act 1997

The CNS Act prohibits the cultivation, production, manufacturing, extraction, preparation, transportation, possession, trade, financing and trafficking of narcotics and psychotropic or controlled substances except for scientific, industrial or medical purposes.

### Cross-border trade and customs

#### Customs Act 1969

This is a comprehensive law governing the institutional framework, processes and procedures as well as violations and punishments related to the imposition of Custom duties.

#### Trade Policy 2010

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<sup>32</sup> The Federally Administered Tribal Areas (FATA) is a semi-autonomous tribal belt located in the north-west of Pakistan, between Afghanistan to the West, Balochistan to the South and KPK province to the East. It is inhabited mostly by Pashtun tribes, and comprises seven Agencies (tribal districts) and six Frontier Regions (FRs). Although the jurisdiction of the Supreme Court and the High Court does not extend to FATA, the entire region falls directly under the control of the federal government, and the Governor of KPK exercises the federal authority there on the behalf of the President of Pakistan. A Political Agent (PA) acts as the administrative head in each of the seven Agencies, representing both the Governor of KPK and the President. Constitutionally the FATA are governed by a set of laws known as the Frontier Crimes Regulations (FCR) which were originally formed by the British in 1901. Balochistan was divided into the so-called 'A-areas' and 'B-areas' by the British establishment during the colonial era to aid the administration of the province. The A-areas comprise cities and towns, roughly 5 percent of the province, which fall under the control of the Balochistan Police; the B-areas refer to the remaining 95 percent of the rural or unsettled parts of Balochistan which are manned by the Levies force. However, unlike FATA where the FCR is in force and where conventional laws of Pakistan are not applicable, Balochistan's A-areas and B-areas both fall under the jurisdiction of the Pakistani constitution and regular laws, namely the Criminal Procedure Code 1898, and the Pakistan Penal Code 1860, apply there. Similarly, all legal proceedings take place at regular courts of Judicial Magistrates and Districts and Sessions Judges like elsewhere in Pakistan.

The Trade Policy 2010 is part of the Ministry of Commerce's three year (2009-2012) Strategic Trade Policy Framework and aims at bringing about a structural transformation and enhancement of Pakistan's exports by a revival of domestic commerce and international trade and by increasing the mobility of capital and labor across sectors, modifying the production processes, and ultimately the content and quality of exports.

#### Afghanistan-Pakistan Transit Trade Agreement (APTTA) 2010

The APTTA 2010 brings about changes in the ATTA 1965. Primarily these changes include a) an international bank will guarantee the shipment through a security deposit which will be released at the exit border point; b) Afghan importers will need to open a Letter of Credit (LC) in Afghanistan for ordering imports; c) Afghan transporters will be allowed to ship consignments to and from Pakistani ports; d) commercial containers will be bonded; e) trackers will be installed to prevent pilferage of goods from containers.

#### Afghan Transit Trade Agreement (ATTA) 1965

ATTA lays down the foundational modalities of trade transiting through Pakistan but destined for Afghanistan.

#### Money laundering and terror financing

##### Foreign Exchange Regulation Act 1947

This act provides for regulating the foreign exchange market by establishing licensing, transactional restrictions, maintenance of accounts, acquisition of foreign securities and special import/export payment rules.

##### Anti- Money Laundering (AML) Act 2010

The AML Act creates the institutional structure for monitoring the financial system for money laundering and enforcing the anti – money laundering law. Due to special arrangements in the B Areas in Balochistan and KPK, these areas have been excluded from the scope of the Anti-Money Laundering Act. This means that transactions occurring in these areas are legally not subject to scrutiny. Furthermore, the Financial Management Unit, the official body responsible for overseeing financial transactions, only monitors transactions taking place in the formal financial institutions. There is oversight available to monitor money laundering happening through Hawala/Hundi channels, leaving a window open for money launderers for conveniently transferring money to international tax havens, off-shore accounts (e.g. in Cayman Islands) and benami accounts (e.g. in Dubai).

#### Human trafficking and migrant smuggling

##### Prevention and Control of Human Trafficking Ordinance (PACHTO) 2002, Rules 2004

PACHTO purely relates to ascribing/elaborating the circumstances and punishment for the act of human trafficking. There was no specific legislation on human trafficking in Pakistan until PACTO was promulgated.

##### Emigration Ordinance 1979

The Emigration Ordinance lays down licensing rules for overseas employment agents and the procedure for emigration. Illegal migration is punishable by this law. It declares forgery of identity documents a crime punishable under this law.

##### Protection of Women Act (POWA) 2006

This Act fills some of the gaps left in PACHTO in relation to intra-state human trafficking. It criminalizes the trafficking of persons of any age or gender for the demonstrable purpose of commercial or non-commercial sexual exploitation. Also, in cases of transnational trafficking for

sexual exploitation, POWA allows for significantly harsher penalties to be awarded than those possible within PACHTO.

#### Pakistan National Plan of Action for Combating Human Trafficking

The national action plan works towards the prevention of human trafficking through effective monitoring of recruitment agencies, improved checking of documents, awareness raising and training. It also aims at prosecution of offenders through border measures and trainings as well as the protection of victims mainly through creation of shelters.

#### Timber market

##### Forest Act 1927

The primary legislation regarding all forest-related issues inherited from the British-era, it is currently being revised to make it more relevant and effective and to omit redundant clauses.

##### Forest Ordinance 2002 – KPK

As forestry is a provincial subject, this ordinance contains the details of the laws pertaining to forests and forests resource management for KPK.

#### Arms and ammunition

##### Pakistan Arms Ordinance 1965

The Pakistan Arms Ordinance 1965 contains all laws related to the purchase, possession and licensing of firearms in Pakistan, including laws about the sale, repair, transport and public display of weapons. Among other things, it also defines the powers of law enforcement agencies to establish searching posts, cancel and suspend licenses, conduct censuses and arrest and prosecute individuals breaching the prescribed legislation.

#### Crime and terrorism

##### Anti-Terrorism Act 1997

The Anti-Terrorism Act (ATA) was passed in 1997 by the National Assembly and the Senate of Pakistan to combat terrorism and sectarian violence and to ensure “the speedy trial of heinous offences...” It authorizes the establishment of special courts and gives considerable powers to the Federal and provincial government(s) and their respective law enforcement agencies, including the power of “calling in of armed forces and civil armed forces in aid of civil power...” if needed, and the power to enter and search any premises or arrest any individual based on sound suspicions of terrorism-related activities without the need for a search or arrest warrant. It also prescribes penalties like imprisonment for the possession and distribution of hateful, threatening or abusive material including printed literature, images, videos or audio recordings etc.

#### Corruption

##### National Accountability Ordinance 1999

The primary purpose of the National Accountability Ordinance is the elimination of corruption through “...prevention, awareness, monitoring and combating”, and the gathering of “economic intelligence” about any instances of corruption by any office holder in Pakistan from 1985 to date. The National Accountability Bureau (NAB) formed through this ordinance has a number of powers, including the ability to set punishments of up to 14 years of imprisonment, imposition of fines equal to the “gains derived by the accused”, power to freeze any movable or immovable property, and disqualification of convicted person to hold a public office for ten years, among others. Although the NAB claimed to have recovered a sum of approximately US\$ 4 billion in fines and penalties, human

rights organizations have voiced concerns over the use of the Bureau as a political weapon to threaten, detain, or imprison the political opponents of the governments of the day.<sup>33</sup>

## 2.3 Legal economy and development

Assessing trends in the documented economy can help identify and understand incentives for illegal activities. The World Economic Forum's Global Risks Report 2011 identifies a feedback loop between illegal economy and economic inequalities. Economic inequalities provide an enabling environment for illegal trade, corruption and organized crime. In turn, the proceeds of criminal economic activities reinforce the power of the privileged, while undermining economic development by raising the costs of doing legitimate business, thereby increasing inequalities both within and between countries.<sup>34</sup>

### Documented economy

Pakistan's GDP was estimated at PKR 14,414 billion or about US\$ 169.6 billion in 2009/10.<sup>35</sup> Economic growth in Pakistan has been characterized by significant fluctuations, with short periods of high growth typically followed by a lull with sluggish GDP growth.

#### 2.3.1 Growth

Pakistan's GDP growth rate averaged just 2.46 percent between 2000 and 2002.<sup>36</sup> The growth momentum, however, began to pick up after the 2002 general elections. In FY 2004 and FY 2005, GDP in fact grew at more than 8 percent. Although it scaled back to about 6 percent for the two remaining years of the Government's tenure, the average growth rate for the previous elected Government remained at 7 percent, a record in Pakistan.

Table 3: GDP growth from FY 2000 to FY 2010

Years	Constant Factor Cost of 1999-2000 (PKR Billion)	Growth Rate (%)
FY2000	3,529.35	
FY2001	3,594.12	1.83
FY2002	3,705.72	3.10
FY2003	3,884.95	4.84
FY2004	4,215.58	8.51
FY2005	4,593.23	8.96
FY2006	4,860.48	5.82
FY2007	5,192.45	6.83
FY2008	5,383.01	3.67
FY2009	5,448.04	1.21
FY2010	5,670.77	4.09

Source: State Bank of Pakistan, Annual Report.

Note: The GDP quoted here is at constant, not current factor cost as GDP growth rates are preferably assessed using constant data.

<sup>33</sup> Human Rights Commission of Pakistan, *Human Rights Watch World Report 2001: Pakistan*, 2001.

<sup>34</sup> Global Risks Report, *World Economic Forum*, 2011.

<sup>35</sup> This was GDP at current factor cost as reported in Ministry of Finance, Economic Advisor's Wing. 2010. Pakistan Economic Survey, Statistical Appendix. Table 1.5.

<sup>36</sup> The fiscal year in Pakistan runs from 1 July to 30 June. The convention when referring to fiscal years is that FY 2000, for example, refers to the fiscal year ending 30 June 2000.

An analysis of the sources of growth during this period reveals some interesting facts.<sup>37</sup> Between 2003 and 2008, the average growth rates for services and large-scale manufacturing (LSM) were 7 percent and 11.2 percent respectively. This was largely responsible for the overall GDP growth rate. In contrast, the average growth in agriculture was 4.1 percent for the period, marginally lower than the average of 4.4 percent recorded in the 1990s. Within the services sector, the growth impetus was coming almost entirely from the finance and insurance sub-sector, with a growth rate of 9.0 percent in FY 2004 which jumped to a significant 30.8 percent in FY2005 and a further 42.9 percent in FY 2006, before leveling off at about 16 percent for the remaining two years. Much of this impetus can be linked to the expansionary monetary policy followed in the period, and the emphasis on the introduction of consumer finance. In contrast, wholesale and retail trade, the next best performing sub-sector in services, grew at an average of 11 percent in the corresponding years.

Growth in LSM was particularly high in two years, FY 2004 (18.1 percent) and FY 2005 (19.9 percent). Although this growth was more broad-based than in services, two sectors, electrical items and automobiles particularly stood out with growth rates of 54.9 percent and 30.1 percent respectively in FY 2005. The link with the growth in consumer financing is again fairly obvious here. It must also be pointed out that growth in textile and apparel was also exceptional at 24.5 percent that year.<sup>38</sup>

The momentum of growth was not entirely sustainable, based as it was on a loose monetary policy which was beginning to feed inflationary trends by the last few years of the outgoing decade. By the end of 2007, Pakistan was feeling the adverse effects of international food price inflation. In addition, an energy crisis began to manifest itself as power supplies in particular failed to keep pace with the demands of a fast-growing economy. In addition, an external account crisis, precipitated by the increase in international fuel prices, threatened to pitch the country towards a default for the first time in a decade.<sup>39</sup> These pressures, coupled with the downturn in the security situation, caused growth to almost halve in FY 2008. The Government started negotiations with the IMF for a loan under the Fund's Stand-by Arrangement (SBA), almost three years after successfully completing a program under the Poverty Reduction and Growth Facility (PRGF) which was supposed to have freed Pakistan of the need for Fund assistance.

The last two fiscal years of the previous decade were particularly difficult for Pakistan. Growth dropped to an all-time low of 1.4 percent in FY 2009, with value added LSM shrinking by almost 8 percent, largely due to power shortages. While agricultural growth was on trend at 4 percent, the services sector, which had provided much of the impetus to the economy over the earlier years of the last decade, grew at only 3.6 percent with deceleration in almost all its component sub-sectors. The economy modestly recovered in FY 2010 but the increased growth rate was, at least partially, attributable to the low base occasioned by the previous year's poor performance. Nevertheless, the commodity producing sectors seemed to be doing better. Growth in the agriculture sector was modest at 2 percent but LSM showed a revival of sorts with a growth rate of 4.4 percent, while the services sector led the recovery, growing by 4.6 percent.

The economy suffered another blow when Pakistan was struck by devastating floods in July/August 2010. Initial damage/needs assessments conducted by the multilateral financial institutions under the Planning Commission indicated that the country would require up to US\$ 10.85 billion to fully rehabilitate the displaced (up to 20 million) and resurrect their livelihoods as well as rebuild essential infrastructure which was destroyed.<sup>40</sup> To put this into perspective, the estimated cost of

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<sup>37</sup> The data quoted in this section is from the State Bank's Annual Reports unless stated otherwise.

<sup>38</sup> An estimated US\$ 6 billion of investments were made in the textile industry between 2000 and 2006.

<sup>39</sup> In the first week of October 2008, the foreign exchange reserves held with the State Bank of Pakistan were barely US\$ 4.3 billion, or equivalent of about five weeks of imports.

<sup>40</sup> Planning Commission, World Bank and ADB, *Pakistan Floods 2010: Preliminary Damage Needs Assessment*, November, 2010.

rehabilitation amounted to a third of the federal budget (the total federal budget outlay, current as well as development, for the last fiscal year was about US\$ 30 billion). Direct damage from the floods was estimated at US\$ 6.5 billion; damage to the agriculture and livestock sectors alone was estimated to be US\$5 billion.

As a consequence of the floods, Pakistan's GDP growth rate for FY 2010/11 was recorded at a disappointing 2.4 percent.<sup>41</sup> Agriculture was particularly affected, with production of major crops at significantly lower levels than the previous year (growth for this sub-sector was a dismal negative 4 percent). LSM also showed insignificant growth, and overall GDP growth would have been close to zero if not for higher than average growth in services, particularly public administration and defense. Sindh was the worst affected by the floods, accounting for 40 percent of all damage, followed by Punjab, KPK and Balochistan.

Currently public investment is at an all time low at 13.4 percent of GDP, constrained by the Government's need to keep the fiscal deficit below 5 percent of GDP. Much needed investment into crucial infrastructure projects has had to be deferred, and there is little noticeable progress on some flagship initiatives such as improvement of the National Trade Corridor, which comprises a network of roads, railways, ports and airports that link the Afghan border near Peshawar to Lahore and then onwards to Karachi and Port Qasim. Policy reform for the transport and logistics sectors, aimed at facilitating the movement of cargo, both domestic and international, is being debated, but the infrastructure will take some time to develop.

### 2.3.2 Poverty and inequality

It is estimated that nearly one-third of Pakistan's population lives below the poverty line.<sup>42</sup> Although per capita income has increased from US\$ 576 in 2002-03 to US\$ 1,254 in 2010-11, the benefits have not been shared by all.<sup>43</sup> Pakistan is categorized as one of the poorest countries in the world<sup>44</sup> where nearly 40 percent of women can be classified as poor, of which nearly 30 percent can be considered both economically and socially poor – that is, having a low social status against international indicators assessing women's status in societies.<sup>45</sup>

The Economic Survey 2009-10 includes a table (see Table 4) which shows various estimates of the Federal Bureau of Statistics (FBS) on the poverty headcount, poverty gap and the severity of poverty index over the last decade. Most of these estimates are based on the FBS's Household Income and Expenditure Survey (HIES) which is conducted every few years, albeit with different sample sizes and sometimes covering different areas. As the data shows, the Government's estimate of poverty incidence (the headcount ratio, or percent of people falling below the poverty line) peaked in FY 2001 and then began to fall steadily. Similarly, the poverty gap (or the mean distance from the poverty line) also fell, indicating that the depth of poverty decreased over the last decade. Poverty, which measures inequality amongst the poor, has also halved since 2001.

In FY2006, overall poverty was estimated at 22.3 percent, just under a quarter of the population. The distinction between urban and rural poverty is important here – rural poverty incidence was estimated at 27 percent in FY 2006 as opposed to urban poverty incidence of only 13.1 percent.

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<sup>41</sup> Government of Pakistan, *Figures for FY2010/11 from Pakistan Economic Survey*, 2011.

<sup>42</sup> The poverty line is officially defined on the basis of per capita ability to purchase the nutritional requirements of an adult (i.e., caloric norm of 2,350 calories per adult per day which was US\$ 13 per month in 2001). Arif, G. M., "Child health and Poverty in Pakistan", *The Pakistan Development Review* 43(3): 211-238, 2004.

<sup>43</sup> Government of Pakistan, *Pakistan Economic Survey 2010-2011*, Islamabad, 2011.

<sup>44</sup> UNDP, *Human Development Indices*, 2008.

<sup>45</sup> Kausar, S. and Qureshi R., *Poverty in Pakistan: A socioeconomic Survey of Punjab*, *Journal of Agriculture and Social Sciences* 1(2): 204-205, 2005.

Table 4: Poverty headcount and other measures

Year	Headcount Ratio (%)	Poverty Gap	Severity of Poverty
FY1999	30.60	6.4	2.0
FY2001	34.5	7.0	2.1
FY2004	–	–	–
FY2005	23.9	4.8	1.5
FY2006	22.3	4.0	1.1

Source: Pakistan Economic Survey, 2009/10.

The Gini coefficient, which measures inequality in income distribution, was estimated at 0.3 in FY 2006 compared to 0.27 in FY 2002, indicating that inequality had increased over that five year period despite apparent decreases in absolute poverty.<sup>46</sup>

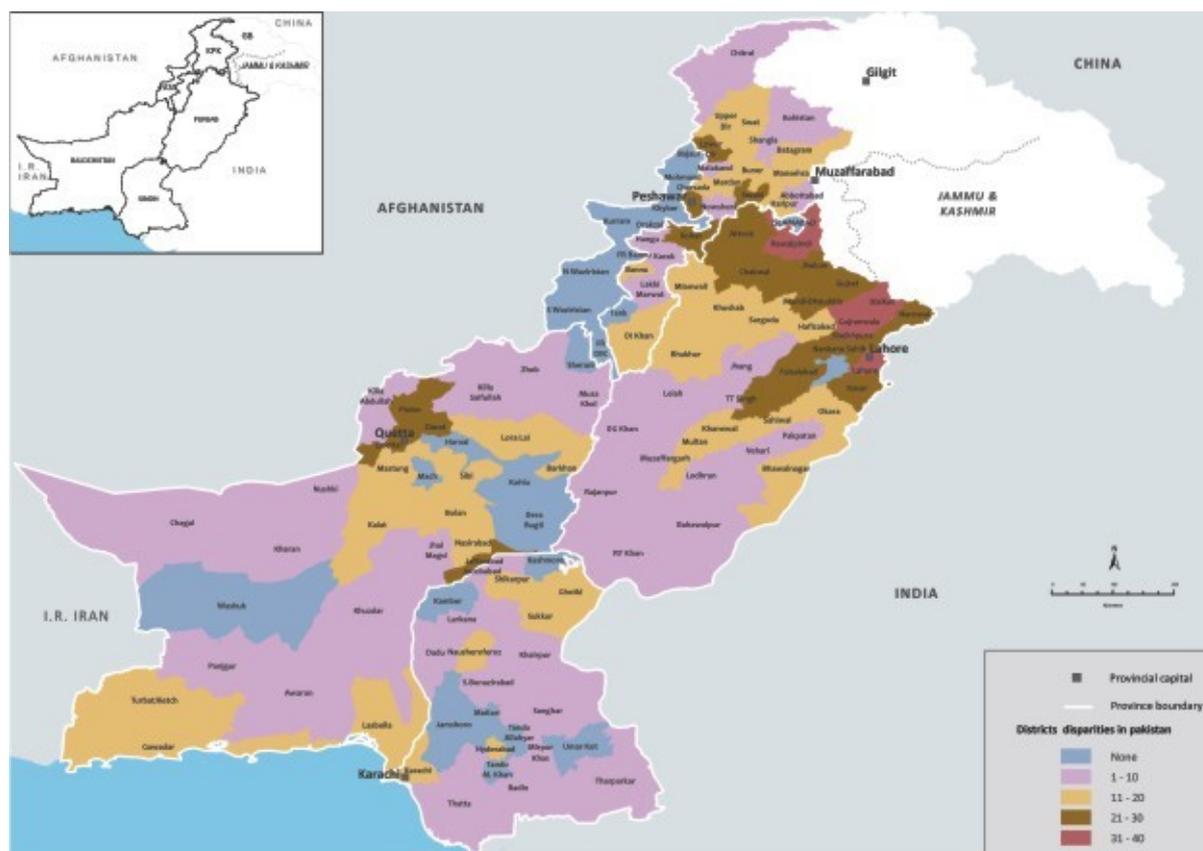
In Pakistan, regional inequality is an important dimension of overall inequality. This is crucial to the analysis because the least-developed areas in Pakistan (KPK, Balochistan and FATA) are where organized crime is most deeply imbedded. Economic stress boosts participation in illegal economic activities, including drug smuggling, arms smuggling and other criminal activities, further degrading the security environment. The illegal economy of Pakistan is a product of, and contributor to, its insecurity.

Regional inequalities fall into three categories: infrastructure, social services and economic opportunities. There are inter-regional as well as intra-regional inequalities. According to a recent study there are, "...wide disparities between as well as within provinces. Punjab and Sindh turn out to be more developed for a range of indicators than Balochistan, KPK and FATA. Within provinces, there are important variations. In Punjab, for example, there is a sharp divide between north-central parts of the province and its south. In Sindh, the main source of variations is the disparity between Karachi and the rest of the province."<sup>47</sup> See Map 1 for a depiction of inter and intra-provincial disparities.

<sup>46</sup> Ministry of Finance, Economic Advisor's Wing, *Pakistan Economic Survey, Table 13.6, 2008.*

<sup>47</sup> Haris, G., *Policy responses to economic inequality in Pakistan, 2009.*  
[http://cerp.org.pk/files/wp/wp\\_4b2a5807e473e.pdf](http://cerp.org.pk/files/wp/wp_4b2a5807e473e.pdf)

Map 1: Inter and intra-provincial disparities in Pakistan



Source: Base data from report by Masood A Qazi & Akhter Lodhi published in Pakistan Development Review, Volume 48, No 4, Part 1, 2009.<sup>48</sup>

### 2.3.3 The external account

Pakistan's current account balance has been negative for most years of the country's history. A notable exception was the period from FY 2002 to FY 2004 when the surplus was largely due to the strong export performance of the textile sector. By FY 2005, however, the deficit had not only reappeared, fueled by rising food and petroleum prices, but also began to grow, reaching an alarming level of almost 9 percent of GDP by FY 2008. Since then it has decreased somewhat as international commodity prices fell. Key indicators are given in the table below.

<sup>48</sup> Qazi, M. A. and lodhi, A., *Intergovernmental funds flows in Pakistan: Are they reducing poverty?* Pakistan Institute of Development Economics, Pakistan Development Review, Volume 48, No 4, Part 1, 2009.  
<http://www.pide.org.pk/psde/25/pdf/Day2/Qazi%20Masood%20Ahmed.pdf>

Table 5: Key external account indicators

Year	Current Account Balance (% of GDP)	Foreign Exchange Reserves Million US\$ as of 30 June	Remittances Billion US\$
FY97-99 Average	(4.4)		
FY2000	(1.6)	1973.6	
FY2001	(0.7)	3231.5	
FY2002	1.9	6435.6	2.39
FY2003	3.8	10,769.7	4.24
FY2004	1.3	12,389.3	3.87
FY2005	(1.6)	12,597.6	4.17
FY2006	(4.5)	13,122.4	4.60
FY2007	(5.1)	15,647.2	5.49
FY2008	(8.6)	11,398.7	6.50
FY2009	(5.7)	12,425.2	7.81
FY2010	(1.7)*	16,750.4	8.91

NB: Figures in brackets show a deficit.

\* July to April.

Sources: Current Account Balance from Annual Reports of the State Bank of Pakistan, Various Issues. Foreign exchange reserve data from State Bank of Pakistan website; remittances data from Board of Investment.

Pakistan's exports amounted to US\$ 15.9 billion for the period from July 2009 to April 2010, 8 percent higher than what they were in the same period in the previous year. The increase in exports came from agricultural commodities, both due to increased domestic production and the higher prices for primary commodities such as rice and cotton in international markets. In contrast, import growth for the same period was 2.8 percent lower compared to the same period in the previous year, with both food imports and machinery imports declining. Reduction in the import of food items was a positive development in that it pointed to increased domestic production of staples such as wheat. The decline in imports of machinery and equipment, however, was an indicator of the sluggish growth in the manufacturing sector, occasioned by an ongoing power crisis.

The foreign exchange reserve position has been strong in the last few years mainly due to the infusion of capital flows from the IFIs. Remittances from Pakistanis working abroad have also shown strong growth in the last decade mainly due to the worldwide crackdown on informal systems of international funds transfer (Hundi/Hawala) in the aftermath of 9/11.

#### 2.3.4 Social indicators

Pakistan's social indicators are not commensurate with its long-term GDP growth rates, and the country lags behind other countries with similar income levels on health and education indicators.

The Pakistan Social and Living Standards Measurement Survey (PSLM) for 2008/09,<sup>49</sup> which is the latest and most comprehensive data source on social indicators, reported literacy rate (for persons aged 10+) at just 57 percent. The net enrolment rate for primary schools was also estimated at 57 percent; for middle schools, this fell to 20 percent. Health indicators were patchy. Immunization rates were reported at 78 percent and the proportion of women who received ante-natal consultations was said to be only 58 percent, with the bulk of those who received such care coming

<sup>49</sup> Federal Bureau of Statistics, *Pakistan Social and Living Standards Measurement Survey (PSLM) 2008/09*, Islamabad, 2010.

from urban areas. Overall, only 35 percent of the population had access to tap water and 63 percent had access to a flush toilet. In rural areas, these proportions fell to 21 percent and 47 percent respectively.

#### 2.4. Political and security situation

Pakistan is a multi-ethnic federation comprising four provinces (Punjab, Sindh, Khyber Pakhtunkhwa or KPK and Balochistan), autonomous region of Gilgit-Baltistan (GB), Federally Administered Tribal Areas (FATA) on the border with Afghanistan and the State of Azad, Jammu and Kashmir (AJK) which is not a part of the federation as such but has a special status as a disputed territory. Ethno-linguistic variations in Pakistan go beyond the provincial boundaries as more than one language group lives in each province.

The country has had a checkered political history, peppered with internal turmoil and external tensions, the latter particularly on the eastern border with India. Yet Pakistan's socio-economic ethos has always manifested a propensity for democracy. The country's institutions, despite difficulties, have managed to remain stable over the years.

Pakistan is acknowledged to be facing an exceptionally complex set of issues at the dawn of the twenty first century. The World Governance Indicators for political stability show a worsening situation year on year from a percentile ranking of 15.9 in 2000 to 0.5 in 2009, placing Pakistan at the lowest in South Asia behind even Afghanistan.<sup>50</sup>

Pakistan's security situation has been deteriorating over the last few years and it has had more civilian casualties than Iraq and Afghanistan.<sup>51</sup> Although FATA, KPK and Balochistan have been the hardest hit, the other areas were no exception. According to the Pakistan Institute of Peace Studies (PIPS), the number of incidents of terrorism, ethno-political violence and sectarian fighting decreased across Pakistan in 2010 by 21 percent as compared to 2009 but there was 288 percent increase in such incidents in Karachi and 200 percent increase in rest of Sindh in the same period.<sup>52</sup> Year 2010 saw a rapid increase in violence in Karachi with 237 political, 187 ethnic, 23 sectarian and 301 other civilian killings.<sup>53</sup> Violent incidents in Punjab also rose in the same period by 34 percent and 70 percent of these were concentrated in Lahore, the provincial capital.<sup>54</sup>

KPK and FATA witnessed the highest number of terrorist attacks, followed by Balochistan and Sindh with second and third highest number of attacks respectively. Punjab had the fewest number of incidents of terrorism among the four provinces. See Map 2.

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<sup>50</sup> Worldwide Governance Indicators <[http://info.worldbank.org/governance/wgi/sc\\_chart.asp](http://info.worldbank.org/governance/wgi/sc_chart.asp)>, accessed 27 July 2011.

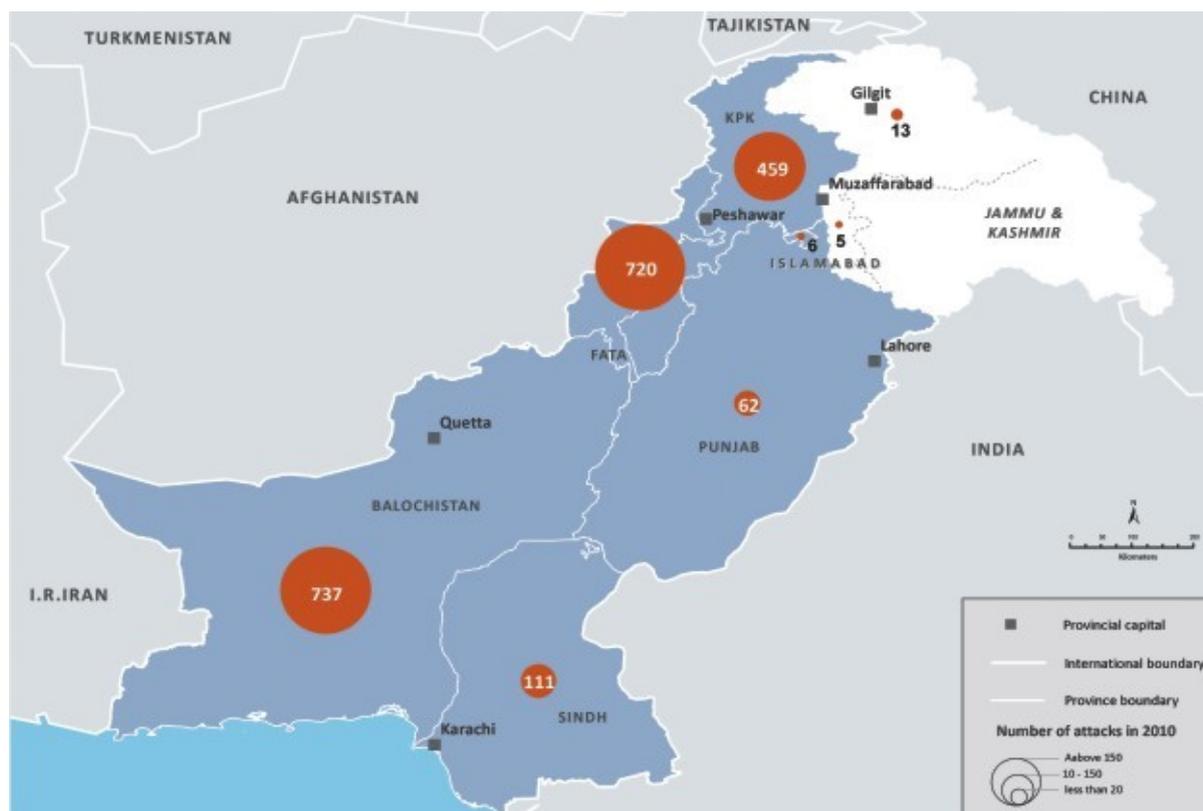
<sup>51</sup> Pakistan Institute of Peace Studies, *Pakistan Security Report 2010*, January 2011.

<sup>52</sup> Ibid.

<sup>53</sup> Human Rights Commission of Pakistan, Enforcement of Law chapter in 'State of Human Rights in 2010', 2011.

<sup>54</sup> Pakistan Institute of Peace Studies, *Pakistan Security Report 2010*, January 2011, page 3.

Map 2: Number of attacks in different parts of Pakistan



Source: Pakistan Security Report 2010, Pakistan Institute of Peace Studies, January 2011

As is evident from available information, the nature and root causes of unrest vary in different regions of the country. In FATA and parts of KPK, the major issue is that of non-state actors which are fighting for control over these areas while in Balochistan the primary concerns are the acts of sabotage and armed violence by separatist militias. In Karachi, the conflict is mostly based on political, ethnic and sectarian grounds, while in Punjab there are reports of the existence of non-state actors in southern parts of the province. According to security officials, however, the Punjabi groups cannot plan or carry out their activities as effectively as the groups in FATA can since they do not have “lawless strongholds” to operate freely in as are available in the tribal regions.<sup>55</sup>

Table 6 shows the Government estimates for the costs of violence over five years. Rapid increase in the costs after 2006-2007 is clearly visible. These include the increased costs of maintaining law and order; humanitarian aid for the victims of conflict and displaced people; fiscal costs, including losses in revenue; economic costs, like reductions in domestic and international investment (foreign direct investment), decreased growth rates and flight of capital and brain drain; and socio-cultural costs, including the impact on standards of living, education and health, among others.<sup>56</sup>

Table 6: Cost of conflict to Pakistan (PKR billion)

Cost	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Direct Cost	0.7894	0.9184	0.9706	1.277	1.342
Indirect Cost	2.259	2.620	3.275	4.422	6.632
<b>Total Cost</b>	<b>3.048</b>	<b>3.359</b>	<b>4.246</b>	<b>5.698</b>	<b>7.974</b>

Source: Finance Division, Government of Pakistan, September 2008

<sup>55</sup> Aziz, F. "Punjabi Taliban" a growing threat for Pakistan, Reuters, May 2010.

<sup>56</sup> Ali, Arshad. *Economic Cost of Terrorism: A Case Study of Pakistan*. ISSI, 2010.



### 3. DRUGS AND PRECURSORS

Pakistan is located in a region with a high threat of opiate production and trafficking and an emerging problem of use and possible production of synthetic drugs in the country.<sup>57</sup> Afghanistan is the source of more than 90 percent of the world's opium and it is also a significant cannabis producer – much of it harvested in provinces bordering Pakistan. Consequently large quantities of opium, heroin and cannabis are trafficked via Pakistan onwards to Iran, the Middle East, Africa, East Asia and Western countries. Pakistan is also a major transit country for the precursors entering Afghanistan.<sup>58</sup> One of the key conduits facilitating the trafficking in drugs and their precursors is ATTA as it provides Afghan farmers with access to foreign markets, enabling mass cultivation of poppy and cannabis crops.

The returns and benefits from opium crop to the Afghan farmers are significant. With a farm gate price of approximately US\$ 125 per kilogram for dry opium, an Afghan farmer can earn huge amounts of money by growing opium poppy which gives returns of US\$ 4,622 per hectare, compared to only US\$ 266 per hectare returns for wheat.<sup>59</sup> Moreover, opium poppy is drought resistant, requiring six times less water than wheat crop, easy to transport and store, and requires no refrigeration.

Opium remains Afghanistan's largest source of export earnings and a major source of income and employment in that country's rural areas. Opium GDP was estimated at in US\$ 2.6-2.7 billion range during the last two years, equivalent to 27 percent of total (drug-inclusive) GDP of Afghanistan and 36 percent of its legal GDP in 2005/06.<sup>60</sup>

While the area under poppy cultivation in Pakistan has reduced significantly, it remains vulnerable to drug trafficking from Afghanistan. One of the important reasons for this is the non-universalization of laws and regulations in the country. The prime example of such legislative gaps is the continued application of the Frontier Crimes Regulation (FCR) 1901 in FATA. This law was formulated by the British establishment in order to draw a workable administrative code for the Pashtun and Baloch tribal belt, offering stiff resistance to the Raj. Today Article 247 of Pakistan's Constitution excludes the tribal belt from Constitutional coverage and provides the President of Pakistan with exclusive power of law-making in the belt. In the wake of the Afghan war, the tribal belt has become more a home to absconded criminals, gangs, non-state actors etc. than to tribal traditions known to uphold peace and social harmony. The tribal elders who assumed the responsibility of law and order in the region have been over-ridden by criminal and non-state groups, who have systematically eliminated and replaced the respected 'Masharaan' or tribal elders. Therefore, the challenge for the Government is to contain the influence of non-state protectors in FATA and the B- Areas (under provincial control) in Balochistan.<sup>61</sup>

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<sup>57</sup> Due to lack of information, synthetic drugs are not included in the calculation of the value of the drug economy.

<sup>58</sup> UNODC, *Drug and Related Crime Challenges Facing Pakistan: Informing Strategies and Responses*, March 2011.

<sup>59</sup> Glaze, John A., *Opium and Afghanistan: Reassessing U.S. Counternarcotics Strategy*, Strategic Studies Institute, U.S. Army War College, October 2007.

<sup>60</sup> UNODC and World Bank, *Afghanistan's Drug Industry, Structure, Functioning, Dynamics, and implications for Counter-Narcotics Policy*, 2007.

<sup>61</sup> The Federally Administered Tribal Areas (FATA) is a semi-autonomous tribal belt located in the north-west of Pakistan, between Afghanistan to the West, Balochistan to the South and KPK province to the East. It is inhabited mostly by Pashtun tribes, and comprises seven Agencies (tribal districts) and six Frontier Regions (FRs). Although the jurisdiction of the Supreme Court and the High Court does not extend to FATA, the entire region falls directly under the control of the federal government, and the Governor of KPK exercises the federal authority there on the behalf of the President of Pakistan. A Political Agent (PA) acts as the administrative head in each of the seven Agencies, representing both the

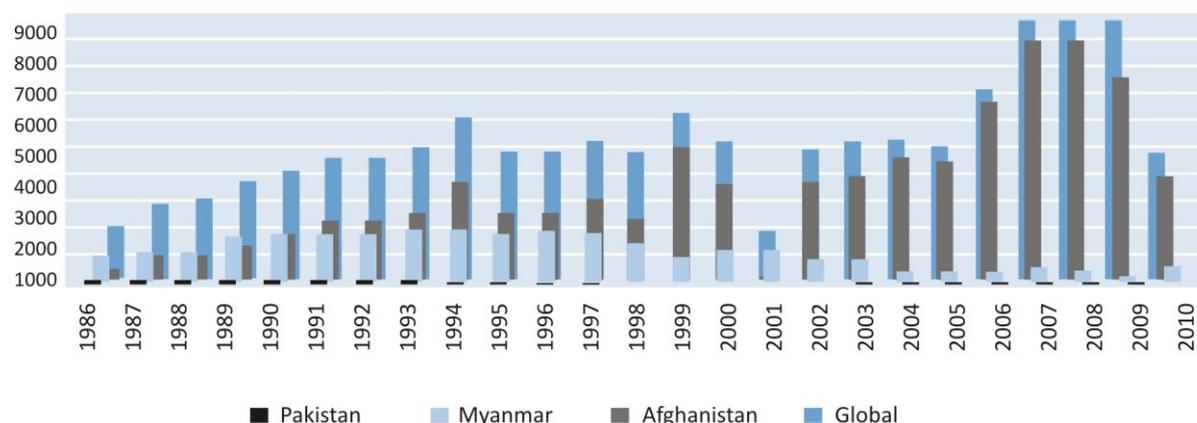
### 3.1. Production trends

#### 3.1.1 Opium and heroin

##### Cultivation

Myanmar dominated global opium production during the 1980s. It produced 935 metric tons of opium in 1986 compared to 130 metric tons produced in Pakistan and 350 metric tons produced in Afghanistan. With the end of the Cold War, Afghanistan's production jumped to 1,200 metric tons in 1989 and in 1991 it overtook Myanmar's 1,728 metric tons output by 2,000 metric tons in that year. While Pakistan and Myanmar were able to effectively control opium production, Afghan opium production progressively increased and peaked at 8,200 metric tons in 2007, more than 90 percent of the total global output that year. Figure 4 shows the global opium production trends.

Figure 4: Global opium production (metric tons)



Source: UNODC World Drug Reports

In 2010 Afghanistan cultivated 123,000 hectares of poppy crop, or approximately 63 percent of the global total.<sup>62</sup> There was also a sizeable increase in poppy cultivation in Myanmar in 2010; it was up to 20 percent higher than in 2009.<sup>63</sup> While the cultivation figures have increased since 2009, global opium production showed significant reductions from 7,853 metric tons in 2009 to 4,860 metric tons in 2010, which has been largely attributed to disease in opium plants in Afghanistan. Figure 5 displays global opium cultivation figures between 1990 and 2010.

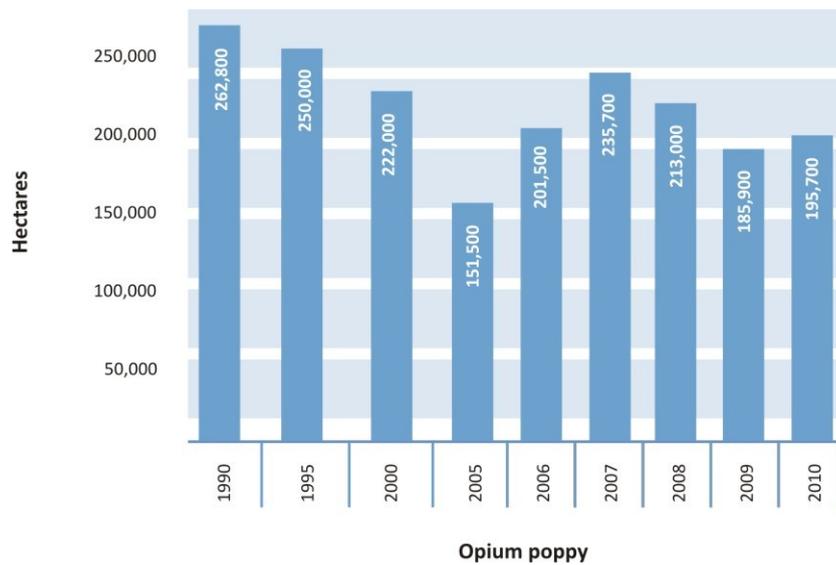
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Governor of KPK and the President. Constitutionally the FATA are governed by a set of laws known as the Frontier Crimes Regulations (FCR) which were originally formed by the British in 1901. Balochistan was divided into the so-called 'A-areas' and 'B-areas' by the British establishment during the colonial era to aid the administration of the province. The A-areas comprise cities and towns, roughly 5 percent of the province, which fall under the control of the Balochistan Police; the B-areas refer to the remaining 95 percent of the rural or unsettled parts of Balochistan which are manned by the Levies force. However, unlike FATA where the FCR is in force and where conventional laws of Pakistan are not applicable, Balochistan's A-areas and B-areas both fall under the jurisdiction of the Pakistani constitution and regular laws, namely the Criminal Procedure Code 1898, and the Pakistan Penal Code 1860, apply there. Similarly, all legal proceedings take place at regular courts of Judicial Magistrates and Districts and Sessions Judges like elsewhere in Pakistan.

<sup>62</sup> UNODC, *World Drug Report*, 2011.

<sup>63</sup> The increased cultivation in Myanmar alone contributed 5 percent to the opium produced worldwide.

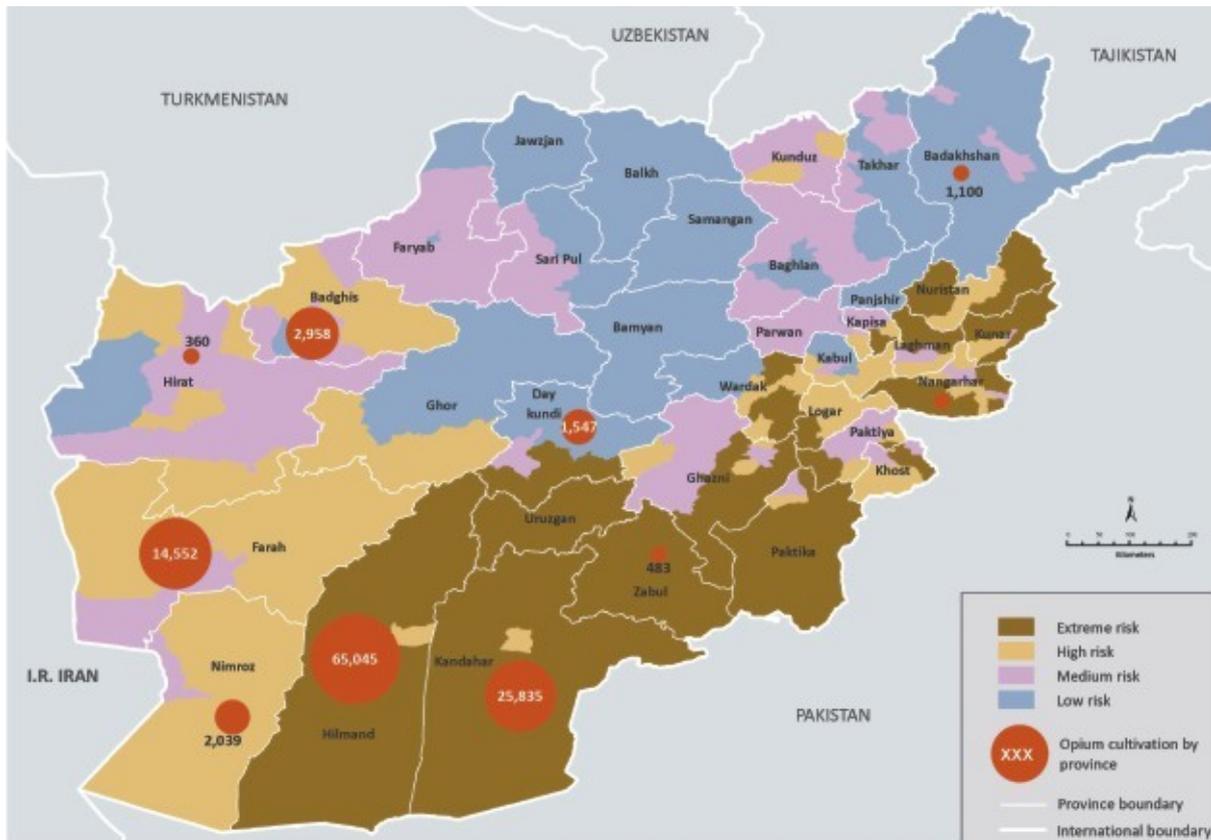
Figure 5: Global opium poppy cultivation (hectares), 1990-2010



Source: World Drug Report 2011, UNODC

According to the UNODC's 'Afghanistan Opium Survey 2009', some 6,900 metric tons of opium were produced in Afghanistan in 2009 with three quarters produced in the provinces of Helmand and Kandahar that share borders with Pakistan, as illustrated in Map 3.

Map 3: Opium cultivation in Afghanistan by province and security map, 2010



Source: World Drug Report 2011, UNODC

Poppy cultivation in Pakistan is only a fraction to that in Afghanistan. In 2010 Pakistan cultivated 1,700 hectares as compared to 123,000 hectares in Afghanistan in the same year. The area in

Pakistan where poppy was cultivated during 2010 (after eradication) was equivalent to only around 1.4 percent of the area in Afghanistan under poppy cultivation. Afghanistan's history of record poppy crops in recent years has contributed to an over-growing supply of opium in the region which has also almost certainly contributed to the low levels of poppy cultivation in Pakistan.<sup>64</sup>

The Government's efforts and alternative development projects funded by the international community helped Pakistan almost eliminate opium production in 2000-2001.<sup>65</sup> Poppy cultivation reappeared in Pakistan in 2002, with cultivation figures above 6,000 hectares in 2003 and 2004. This has been somewhat controlled again since 2006 and dramatically dropped in 2011. Table 7 lists poppy cultivation figures for Pakistan between 2002 and 2011.

Table 7: Poppy cultivation, eradication and harvest 2002-2011 (in hectares)

Year	Reported Cultivation	Eradicated	Harvested
2002	1123	332	791
2003	6703	4,182	2,521
2004	6697	5,202	1,494
2005	3145	707	2,439
2006	1949	397	1,553
2007	2153	614	1,708
2008	1906	56	1,850
2009	1779	105	1,674
2010	1789	68	1,721
2011	1415	1,053	362

Source: ANF, Islamabad

The major portion of poppy cultivated in Pakistan in 2010 was in the Khyber Agency of FATA, making up approximately 1,538 hectares of the total 1,721 hectares cultivated nationwide that year. There have also been low levels of poppy cultivation in Kala Dhaka area of Malakand division, Buner district of KPK, Loralai area of Balochistan and Shahdadkot region of Sindh. No cultivation was reported in Punjab and other parts of the country.

The area of opium poppy cultivation in 2011 dropped to 362 hectares from 1,415 hectares following the successful eradication of 1,053 hectares. Importantly, this is the first time since 2002 that the amount of poppy harvested is below 1,000 hectares. Given the existing law and order situation in the country, this level of eradication - the highest in recent years - is a significant achievement for the Anti Narcotics Force (ANF).

### Processing

Table 8 shows the potential global production of heroin in 2004 – 2010 from the amount of opium produced each year. While the volume of global heroin manufacturing increased in 2005-2008, a gradual decrease was witnessed after 2008.

<sup>64</sup> US State Department, *International Narcotics Control Strategy Report (INCSR)*, 2010.

<sup>65</sup> UNODC, *Overview of the Drug Situation in Pakistan*, November 2010.

Table 8: Potential production of opium and manufacture of heroin (mt), 2004–2010

	2004	2005	2006	2007	2008	2009	2010
Total potential opium	4,850	4,620	6,610	8,800	8,641	7,853	4,860
Potential opium not processed into heroin	1,197	1,169	2,056	3,411	3,080	2,898	1,728
Potential opium processed into heroin	3,653	3,451	4,555	5,479	5,561	4,955	3,132
Total potential heroin	529	472	629	757	752	667	396

Source: World Drug Report 2011, UNODC

A significant proportion of opium processing into heroin takes place in Afghanistan, most of it through mobile and clustered facilities in provinces bordering Pakistan (particularly Helmand and Nimroz). These facilities are located close to the border with Balochistan.<sup>66</sup> Anecdotal information suggests that some of the opium produced in eastern Afghanistan is processed in Pakistan,<sup>67</sup> although no hard evidence is available to substantiate it. In June 2006, the ANF destroyed nine mobile heroin laboratories in the Malgai area of Balochistan. Interviews conducted for this study with local law enforcement officials suggest that no more heroin processing facilities are present in Pakistan. While it is not clear where heroin production might have moved, the fact that laboratories once existed in Pakistan and sustained cultivation of opium in neighboring Afghanistan signals that the country needs to maintain vigilance.

The chemicals used in heroin processing range from unrestricted, common chemicals to internationally monitored substances. Acetic anhydride, however, remains the highest-priority target for the authorities interdicting precursors for heroin production.<sup>68</sup> A UNODC study estimates that 475 tons (approximately equivalent to 1.3 million litres) of acetic anhydride are required annually for the production of Afghan heroin.<sup>69</sup> See Figure 6. All of the acetic anhydride needed for heroin processing within Afghanistan needs to be imported because that country manufactures

<sup>66</sup> UNODC, *Enhancing Border Management: An Assessment of Balochistan's Frontiers*, January 2011.

<sup>67</sup> UNODC, *Precursors Trafficking and Diversion in Pakistan*, March 2010.

<sup>68</sup> The process of extracting morphine from opium involves dissolving opium in hot water, adding lime to precipitate the non-morphine alkaloids and then adding ammonium chloride to precipitate the morphine from the solution. An empty oil drum and some cooking pots are all that is needed.

Morphine hydrochloride (still tainted with codeine hydrochloride) is usually formed into small brick-sized blocks in a press and wrapped in paper or cloth. The most common block size is 2 inches by 4 inches by 5 inches weighing about 1.3 kilograms (3 lbs). The bricks are then dried for transport to heroin processing laboratories.

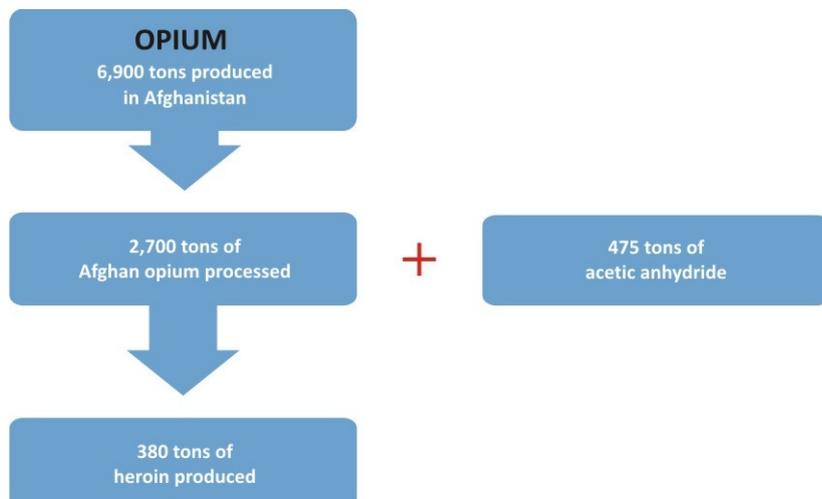
The conversion of morphine hydrochloride to heroin base is a relatively simple procedure. The necessary chemicals are readily available industrial chemicals. The equipment is very basic and quite portable. Heroin conversion laboratories are generally located in isolated, rural areas due to the telltale odors of the lab's chemicals. Acetic anhydride, in particular, is a key chemical with the easily identified very pungent odor of pickles.

Heroin synthesis is a two-step process which generally requires twelve to fourteen hours to complete. Heroin base is the intermediate product. Typically, morphine hydrochloride bricks are pulverized and the dried powder is then placed in an enamel or stainless steel rice cooking pot. The liquid acetic anhydride is then added. The pot lid is tied or clamped on, with a damp towel used for a gasket. The pot is carefully heated for about two hours, below boiling, at a constant temperature of 185 degrees Fahrenheit. It is never allowed to boil or to become so hot as to vent fumes. It is agitated by tilting and swirling until all of the morphine has dissolved. Acetic anhydride reacts with the morphine to form diacetylmorphine (heroin). This acetylation process will work either with morphine hydrochloride or *p'i-tzu* (crude morphine base). Heroin base is then precipitated which is then filtered and dried by heating in a steam bath. For each pound of morphine, about 11 ounces of crude heroin base is formed. The heroin base may be dried, packed and transported to a heroin refining laboratory or it may be purified further and/or converted to heroin hydrochloride, a water-soluble salt form of heroin, at the same site.

<sup>69</sup> UNODC, *The Global Afghan Opiate Trade: A Threat Assessment*, 2011.

neither acetic anhydride nor any other precursor chemicals. In addition, there is no legal industrial or other use for acetic anhydride in Afghanistan to legitimize its imports.

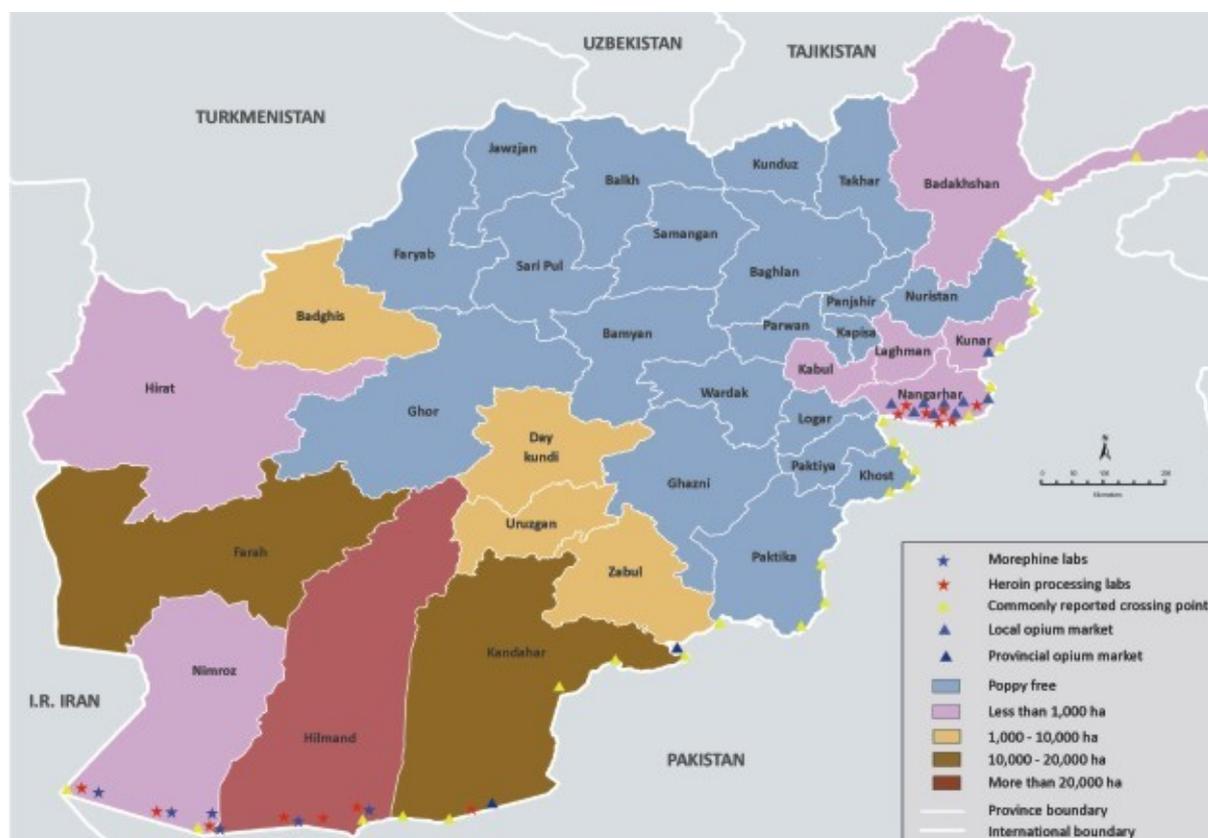
Figure 6: Heroin production in Afghanistan, 2009



Source: The Global Afghan Opium Trade: A Threat Assessment, UNODC, 2011

The manufacture of acetic anhydride has stopped in Pakistan since 1995, but the chemical is still needed in a number of legitimate manufacturing industries like textiles, pharmaceuticals, and paint. Pakistan needs to import significant quantities of acetic anhydride to meet its industrial needs, which in turn raises opportunities for the diversion of precursor chemicals for heroin processing in Afghanistan.

Map 4: Poppy cultivation areas and drug processing labs on the Afghan-Pakistan border

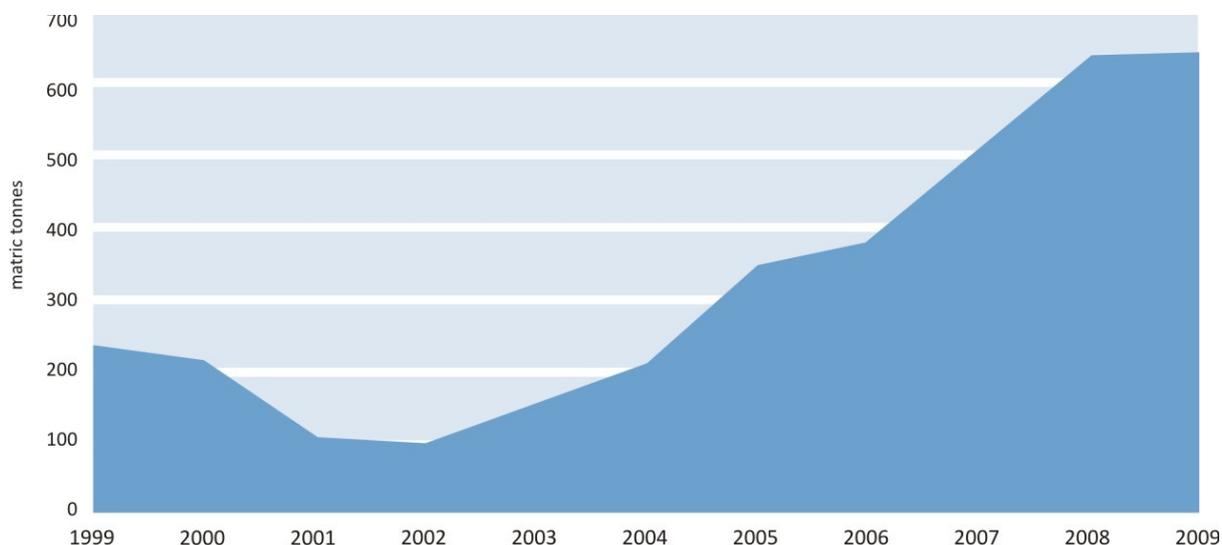


Source: UNODC, 2011

## Seizures

The global seizures of opium decreased from the levels that existed in the late 1990's to the lowest ever figure in 2002, with only 97 metric tons seized. Since then seizures have been increasing in volume, as illustrated in Figure 7.

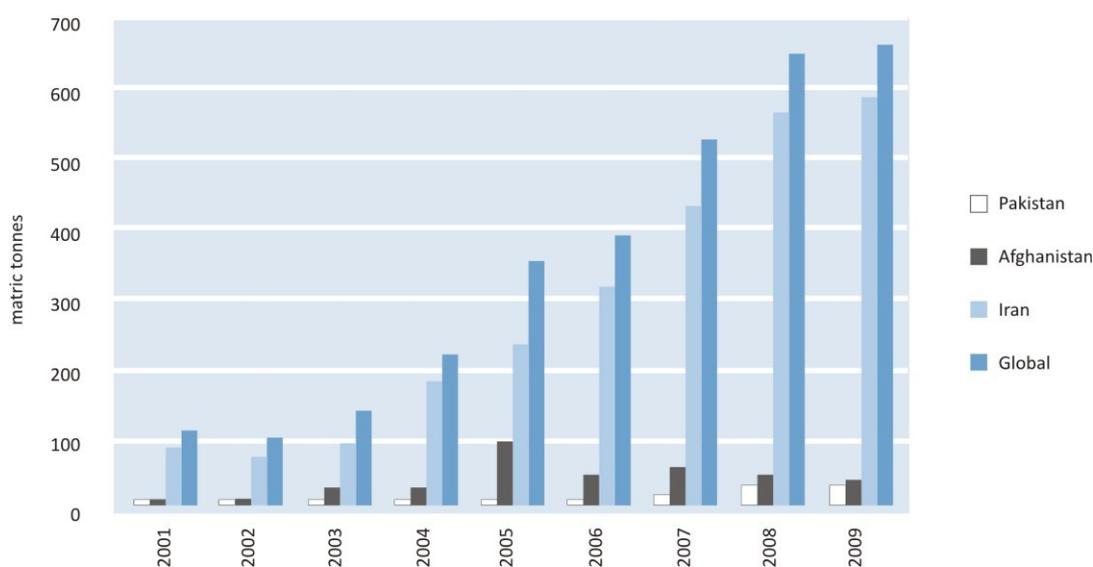
Figure 7: Global seizures of opium, 1999-2009



Source: UNODC World Drug Report 2011

Iran has made a predominant volume of yearly global opium seizures (approximately 80 percent of global seizures). As shown in Figure 8, Iran has successfully interdicted increasing volumes of raw opium, from below 80 metric tons in 2001 to about 580 metric tons in 2009. Pakistani authorities seized an average of 7,200 kg of opium per year over 1996-2007, making it the second most important country in opium interceptions after Iran.<sup>70</sup> In 2008, Iran and Pakistan seized a total of approximately 16.3 metric tons of morphine close to the Afghan borders, amounting to 95 percent of the total global morphine seizures that year.

Figure 8: Seizures of raw opium, 2001-2009



Source: UNODC World Drug Reports

<sup>70</sup> UNODC, *Addiction, Crime, and Insurgency: The Transnational Threat of Afghan Opium*, 2009.

The majority of the seizures in Pakistan take place at major national or provincial entry and exit points where the presence of law enforcement agencies is the strongest, including around ports. Other and smaller seizures mostly take place along major transport routes and trade corridors, possibly reflecting the limited reach and capacity of law enforcement agencies in countering trafficking activities over vast areas inland. The lack of any significant seizures in FATA during the last several years is noteworthy. The large number of seizures made by Pakistan's law enforcement agencies near the Afghan border demonstrates the border's importance as a key trafficking route.<sup>71</sup>

Table 9 lists the percentages of opium seizures in Pakistan between 2002 and 2010. There is a clearly visible distinction between the volume of seizures in Baluchistan (77 percent) and KPK (12 percent) as compared to other parts of the country. The bulk of seizures in Baluchistan have taken place in Quetta, Pishin and Panjgur. Large seizures have also taken place in Kharan, Chagai and further south, Turbat.

While there have been negligible seizures in FATA, the section of KPK between Torkham and Islamabad is an important seizure area where traffickers use the existing trade infrastructure to smuggle drugs. There have been insignificant seizures in GB in recent years, with no reported seizures of opium taking place there in 2010. Most of the seizures taking place in Punjab are along the main transport corridors and in major cities including Faisalabad, Sheikhupura and Multan. Map 5 depicts the locations of opium seizures in Pakistan during 2002-2010.

Table 9: Distribution of opium seizures reported in Pakistan by location, 2002-2010

City	Province	Percentage of total opium seized in Pakistan
Quetta	Baluchistan	22.25
Pishin	Baluchistan	13.55
Panjgur	Baluchistan	11.15
Kohat	KPK	9.97
Kharan	Baluchistan	6.45
Turbat	Baluchistan	5.26
Chagai	Baluchistan	5.01
Makran	Baluchistan	3.36
NokKundi	Baluchistan	3.29
Dalbadin	Baluchistan	2.36
Sargodha	Punjab	1.85
Peshawar	KPK	1.57
Nushki	Baluchistan	1.53
Chaman	Baluchistan	1.45
Taftan	Baluchistan	1.26

Source: ANF, 2011

<sup>71</sup> It is important to keep in mind that seizure figures do not necessarily indicate changes in production/smuggling levels as they may be attributed to variation in law enforcement activity.

Map 5: Seizures of opium in Pakistan, 2002-2010



Source: ANF, 2011

Seizures of morphine were increasing until 2006 when Pakistan and Iran accounted for about 95 percent of the global morphine seizures. It is important to note that morphine is an intermediate product in the processing of opium to heroin. Given that morphine is predominantly seized in the immediate vicinity of Afghanistan may mean that the limited availability of precursors in Afghanistan is leading to trafficking of opium in its semi-processed state of morphine to industrialized markets where precursor chemicals may be cheaper and more easily available to refine it into heroin. Turkey, Pakistan and Tajikistan are likely candidates for this category of countries. Map 6 shows the locations of major seizures of morphine that have taken place in Pakistan between 2002 and 2010.

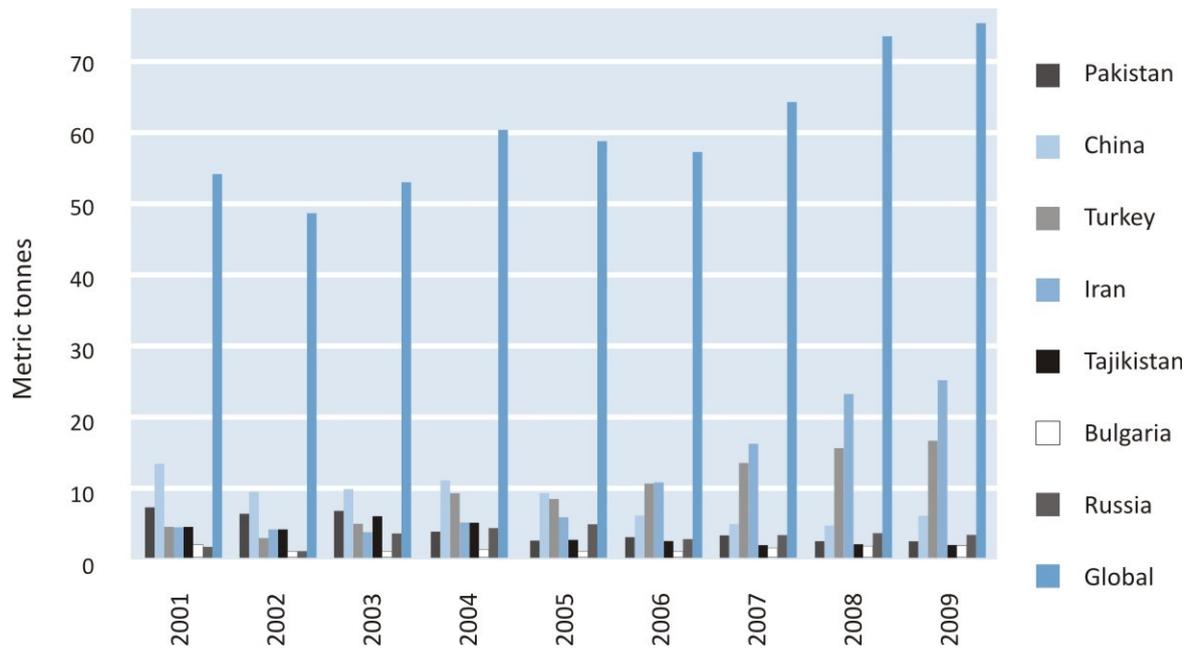
Map 6: Seizures of morphine in Pakistan, 2002-2010



Source: ANF, 2011

Most of heroin seizures take place in countries including Turkey, China, Pakistan, Tajikistan and Iran. The significant volumes of heroin seized in these countries suggest that these countries are being used as hubs for trafficking significant volumes of heroin to international markets. As demonstrated in Figure 9, Iran and Turkey have successfully stepped up efforts in seizing heroin, together accounting for about 40 metric tons of heroin in 2009. Afghanistan seizes between 2 metric tons and 5 metric tons of heroin annually, which is very low for a producer country.

Figure 9: Seizures of heroin, 2001-2009



Source: UNODC World Drug Reports

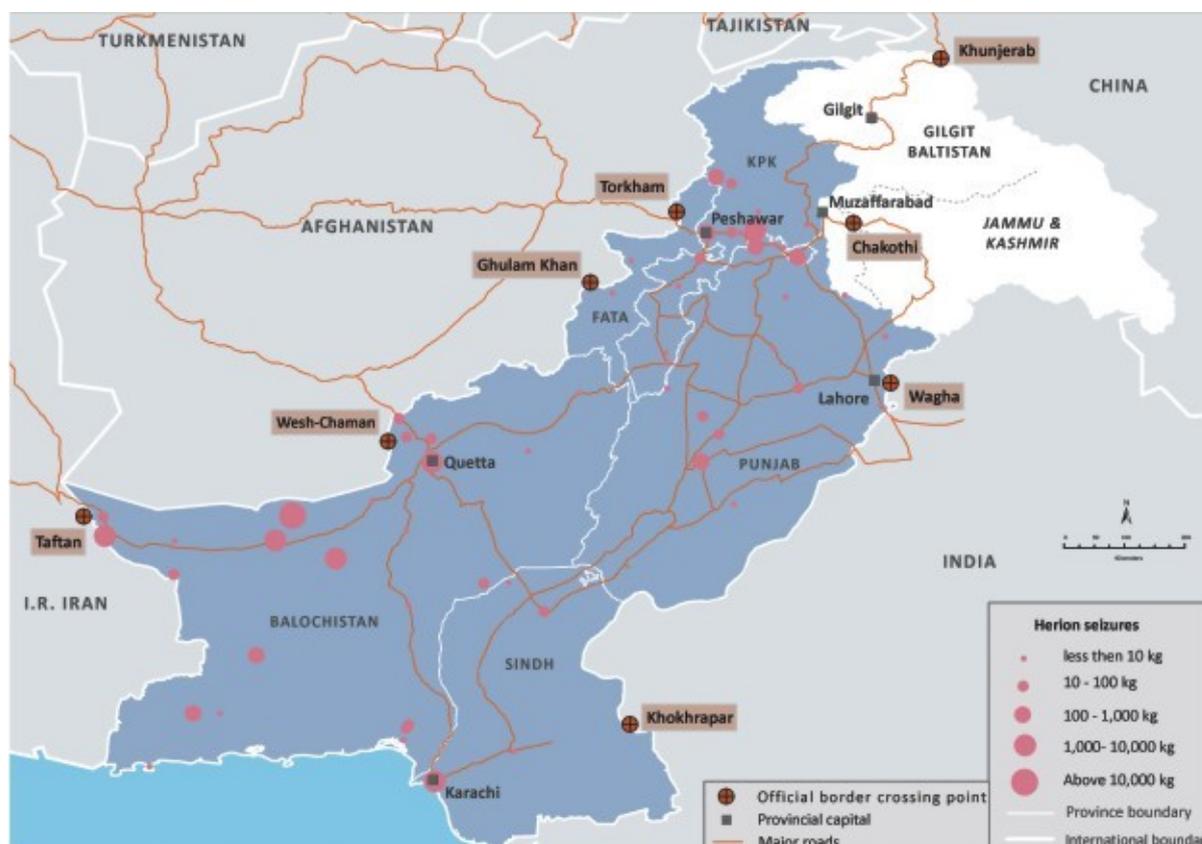
The locations of major seizures of opium and heroin are broadly similar, indicating similar routes and infrastructure for the trafficking of both types of narcotics. Table 10 below demonstrates the importance of Baluchistan as a key trafficking route as it was here that 87.7 percent of Pakistan’s total heroin seizures between 2002 and 2010 took place. Most of trafficking is carried out in the north-west of the province, close to the Afghan border, notably in Chaghai and Dalbandin. Major seizures of heroin have been made in all provincial capitals - Quetta, Karachi, Lahore, Peshawar - and the Federal Capital Islamabad, suggesting that trafficking may be affecting the whole of Pakistan rather than just the border areas. Maps 7 - 9 demonstrate the locations of major seizures of heroin between 2002 and 2010

Table 10: Distribution of heroin seizures reported in Pakistan by location, 2002-2010

City	Province	Percentage of total opium seized in Pakistan
Chagai	Baluchistan	54.89
Dalbadin	Baluchistan	17.25
Quetta	Baluchistan	6.82
Karachi	Sindh	6.49
Lahore	Punjab	2.61
Kharan	Baluchistan	2.50
Kuh-i-Taftan	Baluchistan	1.90
Peshawar	KPK	1.53
Islamabad	Federal Capital Territory	1.07

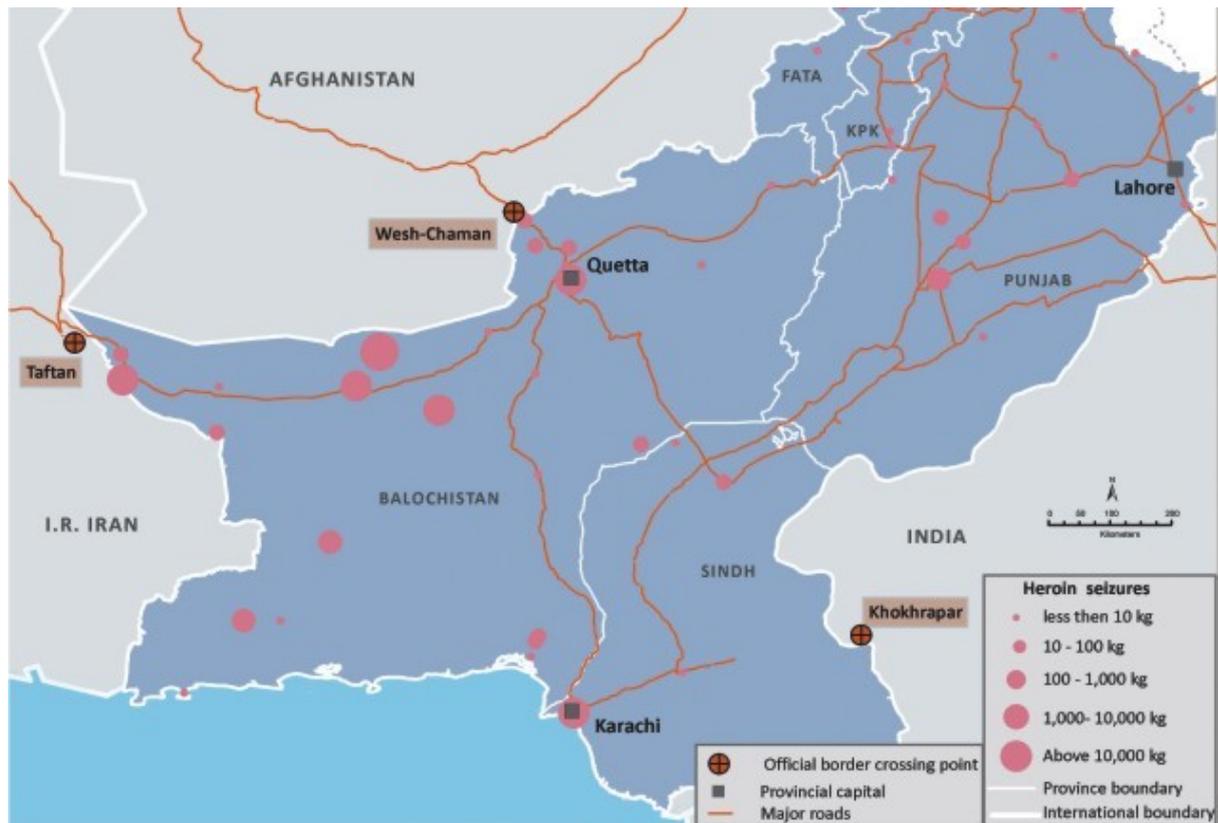
Source: ANF, 2011

Map 7: Heroin seizures in Pakistan, 2002-2010



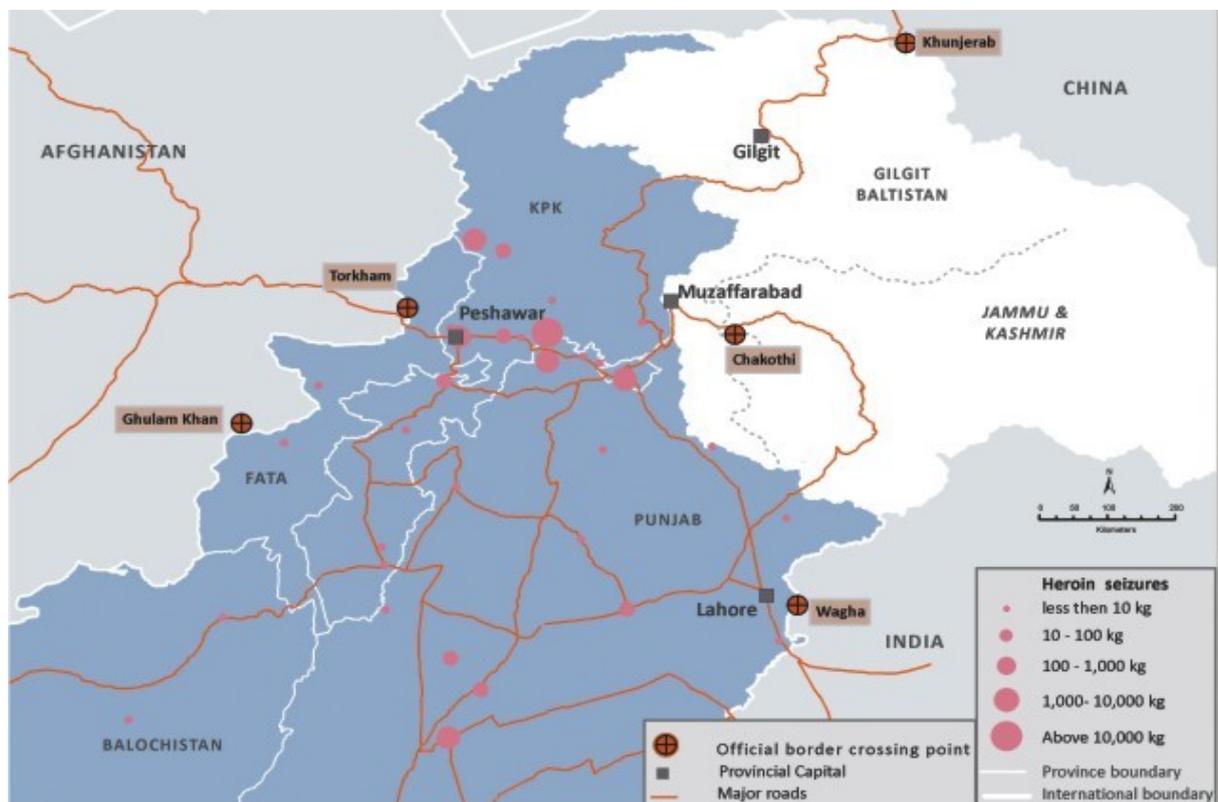
Source: ANF, 2011

Map 8: Heroin seizures in Balochistan, 2002-2010



Source: ANF, 2011

Map 9: Heroin seizures in Northern Pakistan, 2002-2010



Source: ANF, 2011

Pakistan's proximity to major precursor producing nations including China, India and Iran and the evidence provided by recent seizure data suggest that Pakistan is a major source of precursors entering Afghanistan. Little pressure existed on precursors supply routes in the past. Until 2008, there had been no precursor seizures in any of the countries surrounding Afghanistan.<sup>72</sup> See Table 11.

Table 11: Precursor seizures by all agencies in Pakistan, 2008-2011

Date	Location	Seizure description
4 March 2011	Peshawar, KPK	30.6 litres of acetic anhydride
18 August 2010	Abottabad, KPK	378 litres of acetic anhydride
21 March 2010	Karachi, Sindh	15,800 kg of acetic anhydride
29 July 2009	Chagi, Balochistan	4,989 kg of acetic anhydride and 3,600 litres of ammonia
27 May 2009	Karachi, Sindh	137 kg of acetic anhydride
16 January 2009	Karachi, Sindh	5,000 kg of acetyl chloride
29 August 2008	Karachi, Sindh	46.5 litres of acetic anhydride
23 March 2008	Karachi, Sindh	14,000 kg of acetic anhydride
15 March 2008	Quetta, Balochistan	1,224 litres of acetic anhydride

Source: ANF, 2011

Interpreting acetic anhydride seizure data is challenging, since seizures are only a small percentage of the total amount of the chemical estimated to be traded. Acetic anhydride seizures in Pakistan occur mainly in Karachi or near the border with Afghanistan, while few precursors are seized within Balochistan but none in FATA. This may be indicative of both the lack of law enforcement capacity and the traffickers' reliance on the APTTA.

Recently, acetic anhydride destined for Pakistan, as well as Iran, has surfaced in Dubai ports. In July 2010, as a result of intelligence sharing, 14.6 tons of mislabelled acetic anhydride, that had been shipped in China and was destined for Pakistan, was seized in Dubai. See Map 10 for 2010-11 seizures of acetic anhydride in Pakistan, Iran and Afghanistan.

<sup>72</sup> UNODC, *An Overview of the Drug Situation in Pakistan*, November 2010.

Map 10: Seizures of precursors in Afghanistan, Iran and Pakistan, 2010-2011

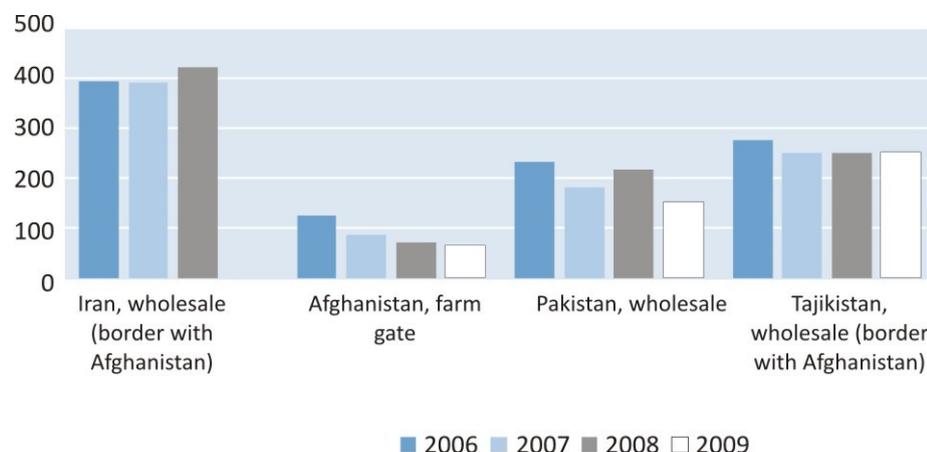


Source: The Global Afghan Opium Trade: A Threat Assessment, UNODC, 2011

### Prices

Wholesale opium prices in Pakistan declined sharply from US\$ 217/kg in 2008 to US\$ 150/kg in 2009, as illustrated in Figure 10. Wholesale prices in Iran, on the other hand, increased over the same period but remained stable at US\$ 250/kg in Tajikistan. Reduction in the farm-gate price per kilogram of opium in Afghanistan in the same was far less dramatic than in Pakistan, registering a decline from US\$ 70/kg to US\$ 64/kg. According to World Drug Report 2011, national average farm-gate price for one kilogram of opium in Afghanistan was US\$ 274 at the end of March 2011, an increase of 180 percent from US\$ 98/kg reported in March 2010. This increase is possibly caused by reduced yield due to the disease in poppy plantations in Afghanistan in 2010.

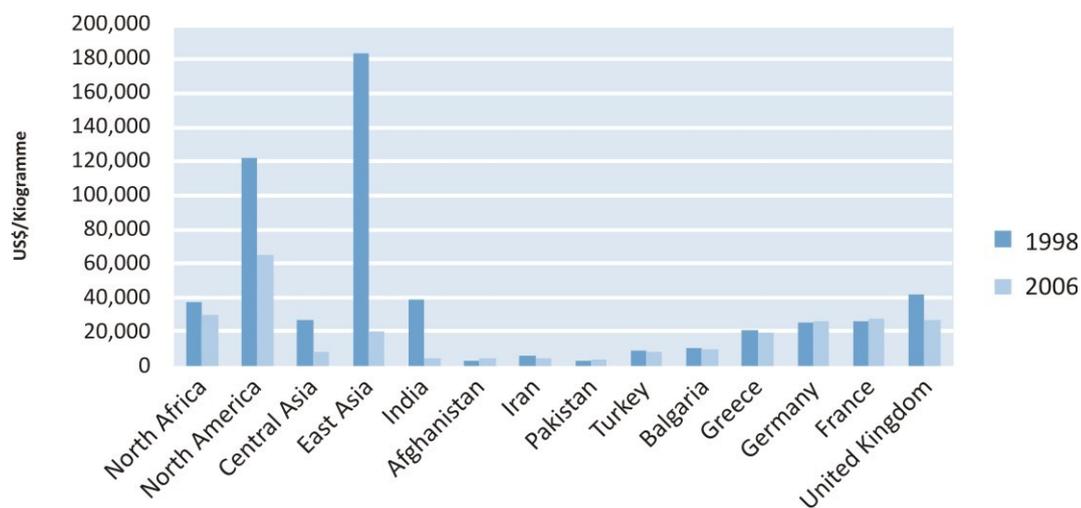
Figure 10: Opium prices in West Asia, 2006-2009 (US\$/kg)



Source: World Drug Report 2010, UNODC

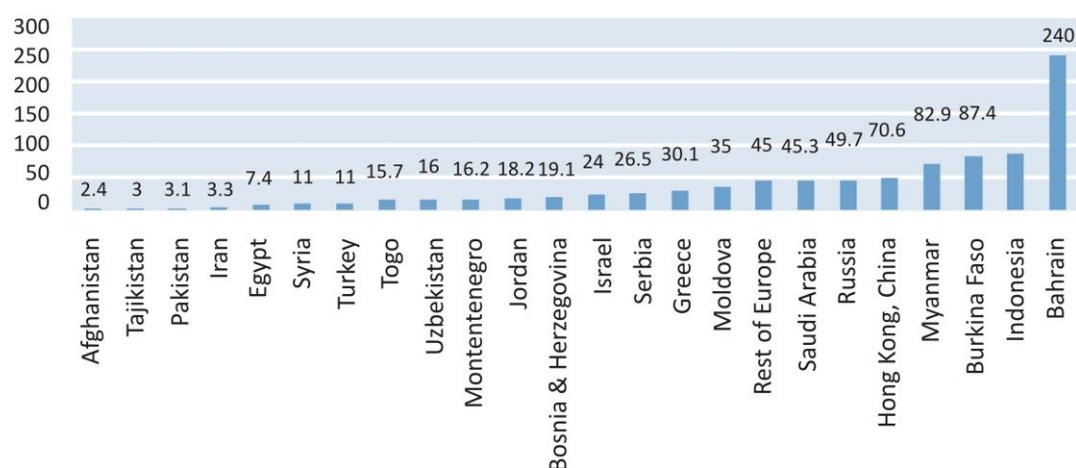
During 1998-2006, the prices of heroin in Western Europe and North Africa remained fairly stable between US\$ 25,000 and US \$ 30,000 per kilogram; in Turkey and Eastern Europe it was also stable between US\$ 8000 and US \$ 10,000 per kilogram. In Afghanistan, Pakistan and Iran the price remained between US\$ 2500 and US\$ 4500 per kilogram in the same period. Prices in other regions, particularly East-Asia, experienced a sharp drop indicating that the Afghan drug traffickers had opened up new markets for narcotics. In East-Asia, the prices dropped from an average of US\$ 180,000 per kilogram to less than US\$ 25,000 per kilogram in 1998-2006. In Central Asia, prices eased to less than US\$ 10,000 per kilogram from about US\$ 27,000 per kilogram in the same period while prices in North America doubled to about US\$ 60,000 per kilogram. See figures 11 and 12.

Figure 11: International prices of heroin



Source: UNODC World Drug Reports

Figure 12: Heroin wholesale prices (not adjusted for purity) in Africa, Asia and Europe 2008 (US\$/gram)



Source: World Drug Report 2010, UNODC

The pattern of heroin production in Afghanistan has been showing a shift to morphine production in the recent years. The main reason for this is the sharp rise in the price of acetic anhydride in Afghanistan - earlier available at less than US\$ 100 per liter but now selling for up to US\$ 300-400 per liter. An increase in the seizures of morphine (27 metric tons in 2008) in Pakistan also indicates that traffickers prefer to transport opium in this semi-processed state to be refined into heroin in a location where precursors are easily available. This supports the hypothesis that there is an incentive to move processing facilities closer to the upstream supply hubs of precursors including, possibly, Pakistan, India, Iran, China, Turkey and Tajikistan.

The aggregate domestic prices of narcotics in Pakistan derived from data reported by ANF in January 2011 are given in Table 12 below. In determining the aggregate prices, a weight of 1/4 has been assigned to A-Grade drugs due to their lower consumption, whereas a weight of 3/4 has been assigned to B-Grade drugs.

Table 12: Average prices of drugs in Pakistan, January 2011 (US\$ per kg)

Opium	Heroin	Hashish
330	2505	275

Source: ANF, 2011

The usefulness of price data is reduced by the lack of knowledge about heroin’s purity levels – either of heroin seized or consumed. Purity levels are also critical in predicting volumes of heroin trafficked, dilution points and criminal profits. It is clear that profits from heroin trafficking increase rapidly as heroin is moved along the trafficking route. Criminal networks benefit by diluting heroin purity. They also derive maximum benefit from increasing street prices.<sup>73</sup>

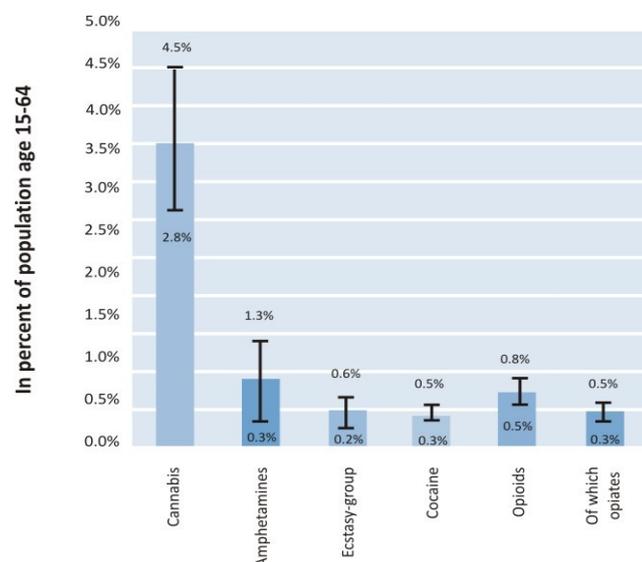
### 3.1.2 Cannabis

#### Production

Cannabis remains the most widely used of all illegal drug types, produced in practically every country in the world and estimated to have been consumed by about 125 million to 203 million people globally in 2009.<sup>74</sup> Figure 13 illustrates the annual prevalence of cannabis as the highest among all other drug types.

While cannabis herb is mostly produced for local or domestic markets, cannabis resin is produced for trafficking across larger distances.<sup>75</sup> Afghanistan, Morocco, Lebanon and India/Nepal are the major producers of cannabis resin. Figure 13 shows a comparison of the main source countries of cannabis resin for 2004-2006 and 2007-2009. The amount of cannabis production -- as well as the relative shares of most of its major source countries -- has increased over the years.

Figure 13: Annual prevalence of drug use at the global level, 2009-2010



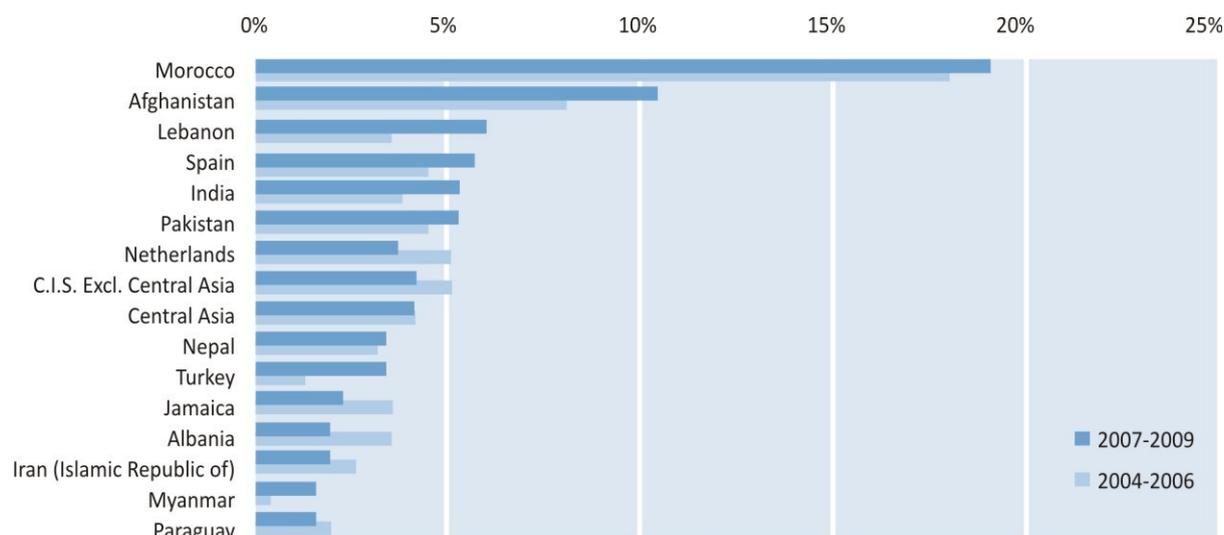
Source: UNODC estimates, World Drug Report 2011

<sup>73</sup> UNODC, *The Global Afghan Opium Trade: A Threat Assessment*, 2011.

<sup>74</sup> UNODC, *World Drug Report*, 2011.

<sup>75</sup> Ibid.

Figure 14: Main source countries of cannabis resin reported to the UNODC in the periods 2007 – 2009 and 2004 – 2006.



Source: UNODC estimates, World Drug Report 2011

Although there was no international update on the exact figures of global cultivation or production for 2010, a steady seizure trend suggests that the production of cannabis resin continues to be stable.

Afghanistan's superior yield of 145 kg of cannabis resin per hectare as compared to only 40 kg per hectare in Morocco makes Afghanistan the biggest producer of cannabis resin in the world, despite having lower cultivation than some other countries. Afghanistan is estimated to produce 1,500-3,500 metric tons of hashish annually, a product derived from cannabis. Cannabis has become a competitor to opium poppy as a lucrative crop for farmers in that country.

According to the UNODC's first-ever Afghanistan Cannabis Survey 2010, there is large-scale cannabis cultivation in exactly half (17 out of 34) of Afghanistan's provinces. Moreover, similar to poppy plantation, patterns of production have shifted towards the southern provinces in recent years and the area now represents more than two-thirds of total cannabis cultivation.<sup>76</sup> This has profound implications for trafficking via Balochistan.

In Pakistan, the prevention of cannabis production and eradication of its source crop has had a lower priority. There are no official statistics of cannabis production, cultivation and eradication, but it is believed that substantial amounts are cultivated in the country.

### Seizures

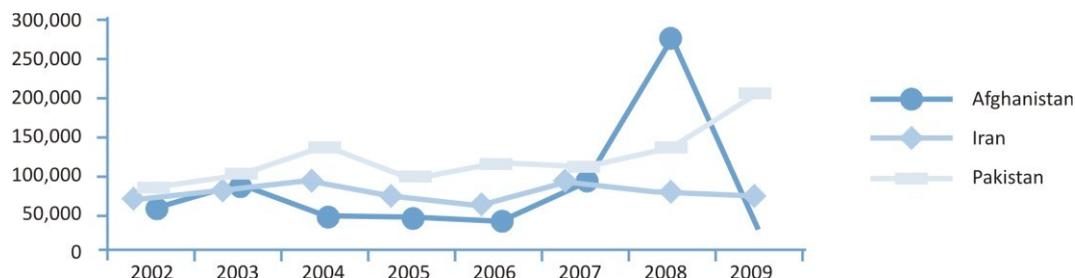
Most cannabis seizures in the Middle East, Central Asia and South Asia are reported to originate from Afghanistan, Iran and Pakistan.<sup>77</sup> Reportedly, most of the cannabis resin (hashish) seized in Iran and Pakistan originates from Afghanistan.

Seizures of hashish have been gradually increasing in Pakistan, with a sharp increase in 2009 (see Figure 15). Seizures in Iran have been steadily decreasing while seizures in Afghanistan have generally remained lower than those in Pakistan and Iran, save one interdiction effort in Afghanistan in 2008 when around 270,000 kg of hashish was seized.

<sup>76</sup> The Southern provinces include Helmand, Kandahar, Uruzgan, Zabul and Day Kundi (ibid and various WDRs).

<sup>77</sup> UNODC, *Overview of the Drug Situation in Pakistan*, November 2010.

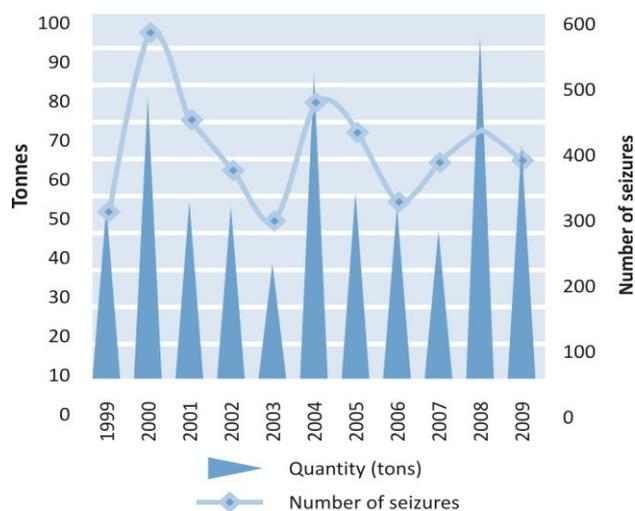
Figure 15: Seizures of cannabis resin (hashish) in Afghanistan, Iran and Pakistan (2002–2009)



Source: Annual Reports Questionnaires 2002–2008, 2009 figures: Government figures

As can be seen in Figure 16, there have been considerable fluctuations in the number of seizures as well the respective amounts of cannabis seized in Pakistan originating from Afghanistan. The highest seizures took place in 2008 with a total of over 95 tons of hashish seized by law enforcement agencies.

Figure 16: Significant individual seizures of cannabis resin in Pakistan originating in Afghanistan, 1999–2009

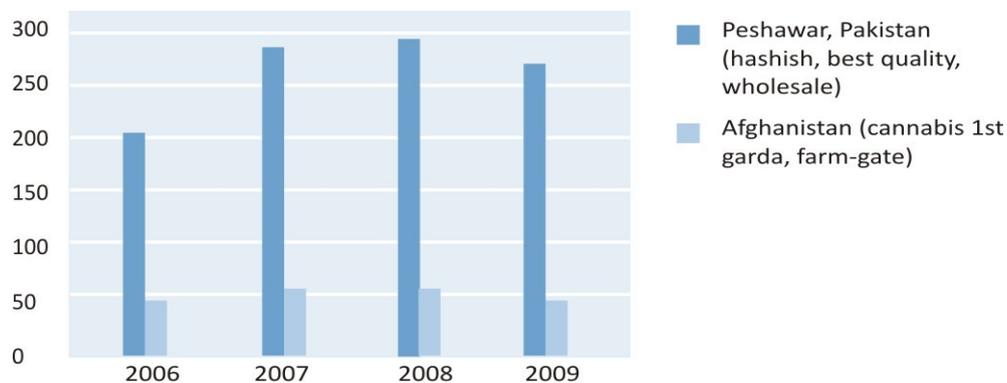


Source: UNODC World Drug Report, 2011

### Prices

The general annual trend, as displayed in Figure 17, shows that both farm-gate prices of hashish in Afghanistan and wholesale prices in Pakistan increased during 2007–2008 as compared to the prices in 2006 (from US\$ 49/kg in 2006 to US\$ 60/kg and US\$ 56/kg for 2007 and 2008 respectively, in Afghanistan) but then decreased in 2009 to around US\$ 50/kg.

Figure 17: Average annual prices of cannabis products in Pakistan and Afghanistan 2006 – 2009 (US\$/kg)



Source: Afghanistan Cannabis Survey 2010, UNODC, 2010

### 3.1.3 Synthetic drugs

Unlike the cultivation of the coca leaf or opium poppy, production of synthetic drugs is not limited to certain geographic locations as laboratories can clandestinely operate anywhere and be relocated as risk increases. One unique characteristic of synthetic drugs is directly related to how they are produced – from precursor chemicals which are to synthetics what opium is to heroin. If a precursor becomes unavailable, replacements can be easily found. New synthetic stimulants not yet under international controls can also be brought quickly to market.

Information on the manufacturing of synthetic drugs in Pakistan is unknown to a large extent due to incomplete statistics, but the region surrounding Pakistan has experienced a significant increase in synthetic drug manufacturing and trafficking over the past 10 years. There are now significant consumption and production bases in some neighbouring countries, most notably China, India and Iran. Additionally, there have also been seizures of synthetic drugs and their precursors in other countries that seem to have originated from, or destined for, Pakistan.

Given the apparent proliferation of labs in Sri Lanka, India and Iran, it is highly likely that Pakistan will be targeted soon or is already hosting a small production capability for synthetic drugs.<sup>78</sup> Pakistan's production facilities, if they already exist, will probably rely on pseudoephedrine, rather than more complex or less easily available recipes. There is at least one registered producer of pseudoephedrine in Lahore.

## 3.2. Trafficking trends

### 3.2.1 Opium and heroin

Pakistan is reported to be the destination and transit route for nearly 40 percent of the opiates produced in Afghanistan. Trafficking to and through Pakistan has increased since 2005, keeping pace with the sharp increase in the production of opium in Afghanistan. It is facilitated by 2,500 km long porous border between the two countries, the rugged terrain around the border and frequent cross-border movements of tribesmen that have families across both sides of the international frontier. Poorly-equipped checkpoints at remote locations also help trafficker.

Based on UNODC reports, an estimated 1,500 metric tons of opium is trafficked through Pakistan's territory annually of which approximately 1000 metric tons flows into Iran, 80 metric tons is used for domestic consumption in Pakistan, about 80 metric tons is exported to other destinations such as China and India and nearly 15 metric tons is seized.

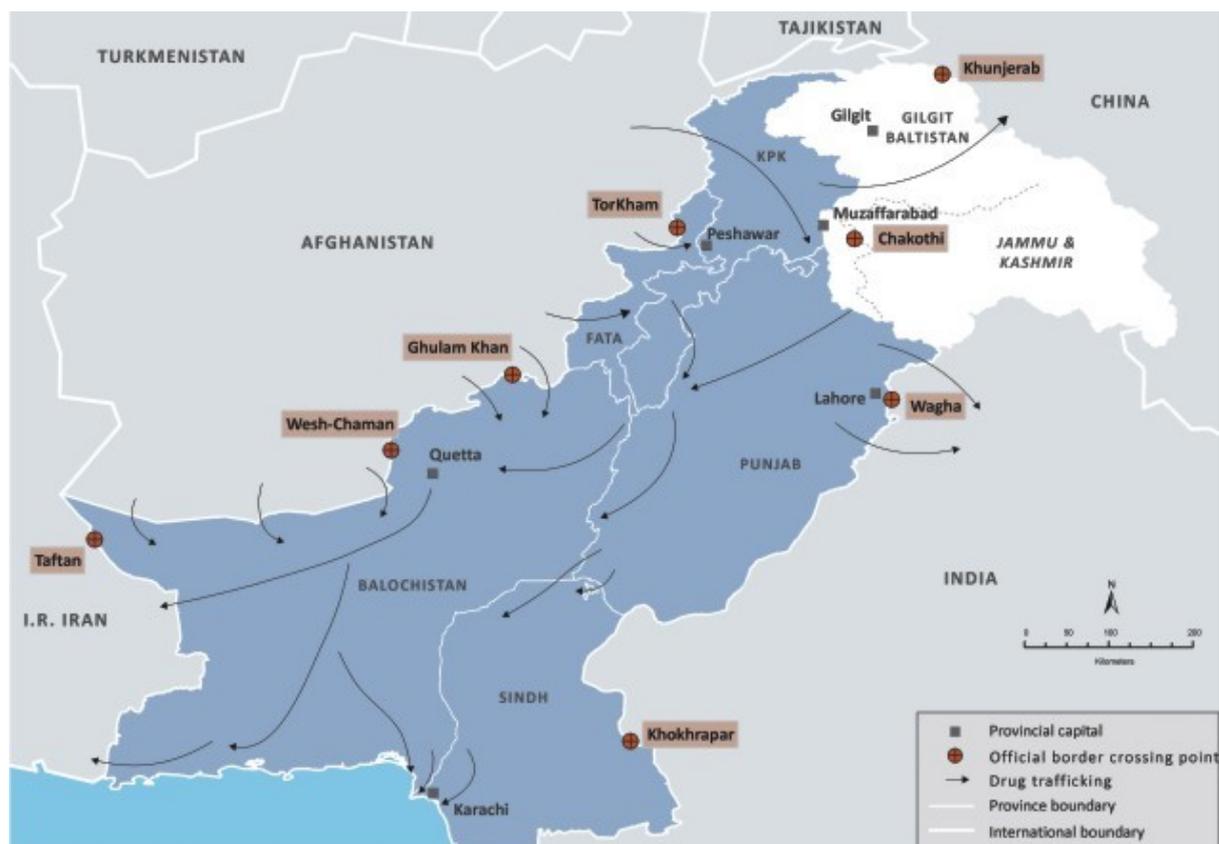
An estimated 160 metric tons of heroin is trafficked through Pakistan annually, of which approximately 138 metric tons is exported, 19 metric tons is consumed domestically and about 3 metric tons is seized.<sup>79</sup> Map 11 provides a generalized depiction of the major flows of opiates trafficked from Afghanistan through Pakistan.

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<sup>78</sup> UNODC, *Precursor Trafficking and Diversion in Pakistan*, February 2010.

<sup>79</sup> UNODC, *World Drug Report*, 2011.

Map 11: Afghan opiate trafficking through Pakistan



Source: Overview of the Drug Situation in Pakistan, UNODC, November 2010

FATA is a key opiate trafficking route linking Afghan production with consumption markets in China, India and other international destinations via sea and air. Drugs trafficked from Afghanistan into FATA mainly enter through Khyber, Mohmand or Bajaur Agencies. Opiates that are trafficked through FATA can move in three primary directions: to China via GB, to Punjab (and India) through KPK, or to Karachi via KPK, and then onwards to other international destinations.<sup>80</sup> See Map 12.

<sup>80</sup> UNODC, *Addiction, Crime, and Insurgency: The Transnational Threat of Afghan Opium*, 2009.

Map 12: Generalized routes of drug trafficking through KPK and FATA



Source: Overview of the Drug Situation in Pakistan, UNODC, November 2010

1. Trafficking to China: Afghan opiates destined for the Chinese border utilize road network. But other than the Karakoram Highway (KKH), there are no official roads passing through the Pakistan-China border. So the traffickers are likely to enter the Chinese border through irregular pathways in order to avoid any interaction with authorities. Trafficking across the border occurs in passenger buses, trucks and private vehicles. Alternatively, drug consignments can also be hidden in the border zone and later taken across the border in smaller quantities.

Trafficking to China via road network is probably contained as the Pakistan-China border trade route is presently difficult for the trucking industry due to poor road conditions and high costs of vehicle maintenance. Taxes and duties, both official and unofficial, are also high. The upgrading of sections of the KKH route will help reduce travel time, triple transport capacity and reduce maintenance costs for freight trucks. These improvements will likely also shift an increasing proportion of opiate exports and precursor imports onto the KKH.

2. Trafficking to India: Drug trafficking from FATA to India is less compared to drug trafficking to China or Karachi from FATA. Drugs enter India mainly via Sialkot and across the Pakistan-India border at the Wagma border crossing in Punjab. Drugs can be trafficked to India utilizing train, bus or car connections via Wagma, but any of these options are limited to small passenger consignments. Cargo trucks transporting goods from Pakistan into India are required to be fully unloaded and re-loaded onto Indian trucks and the same applies to Indian goods entering Pakistan. As such, traffickers are at a greater risk of detection than at the Afghan border, for example, where trucks can directly cross the border. In recent years, opiate seizures along the Pakistan-India border have been small with just nine seizures at the Wagma border crossing between 2008 and 2010.

3. Trafficking to Karachi and the coast: The national trade corridor of Pakistan, stretching from Torkham to the Makran coast, makes international shipment of drugs through FATA the most viable transport option. Numerous proposals to upgrade this corridor are likely to consolidate the use of this route and reduce transport time for traffickers. According to interviews in Khyber Agency, drugs are shipped from FATA to the coast by different means depending on the type of drug transported. Heroin is reportedly transported in concealed compartments in small vehicles, such as jeeps or cars, while hashish is more likely to be transported in large trucks or oil and water tankers.

Infrastructure development along the national trade corridor from Torkham to Karachi will increase the capacity of border crossings and other entry points to handle freight, traffic and trade. It is unlikely that the capacity of border control posts and customs will develop as quickly as trade flows, considering that this capacity is already stretched. An increase in the volume of trade coming into, and transiting through, FATA without simultaneous boosting of customs and border control units will reduce the traffickers' chances of being detected.

Apart from established ports, a significant volume of drugs is also trafficked by sea from various unofficial points along the Makran Coast. In addition to seaports and coast, Pakistan's dry-ports are likely being used for heroin trafficking. Pakistani officials have drawn the attention of UNODC to the insufficient capacity to check every container entering or exiting key dry ports. Traffickers are likely to have been exploiting these inland export points, particularly in Lahore and Multan. Many heroin seizures occur near these cities.<sup>81</sup>

#### Box 1: Trafficking through seaports

Traffickers' use of maritime transportation and seaports has been identified as a key emerging threat in UNODC World Drug Report 2011. According to the report, this threat is currently largely overlooked by international law enforcement agencies. In 2009, more than 420 million containers were shipped worldwide, of which only 2 percent were inspected. In the same year only 6 percent of global heroin seizures occurred at seaports.

Karachi and Qasim ports currently handle 95 percent of Pakistan's external trade. Containers are held in the port for at least seven days – three times the standard timeframe of developed countries. The prevention unit of Customs at the Karachi Port stated that it had checked only six containers, since its inception in 1988, for verifying precursor consignments.

There are indications that drug traffickers are utilizing maritime transportation much more intensively than believed. Examples from Pakistan support this assumption. Officials at Port Qasim in March 2010 seized 15.8 tons of acetic anhydride, the precursor used to produce heroin from opium, marking the largest-ever seizure of the chemical in Pakistan.

Although currently used only for bulk cargo, Gwadar port has a foreseeable role as one of the main entry points for Afghan transit goods, thanks to its proximity to the Afghan border. The port currently lacks necessary infrastructure links between Gwadar and Afghanistan-Pakistan border, but the ongoing development of this route will likely see Gwadar becoming an increasing transit point for drugs and precursors entering and exiting Afghanistan. According to available data, Gwadar is already the most common port area used for illegal migration from Pakistan, including human trafficking.

Evidence suggests that Balochistan is the gateway for Afghanistan's connections with international markets via sea and, to a lesser extent, air transport. In Balochistan, drugs are mainly trafficked on smaller, unmonitored routes between the border and the Makran Coast, making detection and interdiction difficult for law enforcement agencies. Balochistan's long and porous border with

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<sup>81</sup> UNODC, *The Global Afghan Opium Trade: A Threat Assessment*, 2011.

Afghanistan has one official crossing, located in Chaman, although it is punctured by hundreds of natural passes and unofficial crossings.<sup>82</sup>

A significant proportion of Afghan opiates are trafficked from Hilmand and Nimroz provinces into Balochistan utilizing unofficial crossings. Drugs are trafficked via three main unofficial border points in Balochistan's Chaghi district: Girdi jungle, Baram Cha and Rabt. These routes are regarded as golden passages for drug traffickers as they have minimal law enforcement presence and optimal transport distances to the Islamic Republic of Iran and the Makran Coast. Drugs are also reportedly stored in these border areas temporarily until they are transported through Balochistan.<sup>83</sup>

Proposed transport networks to link the expanding Gwadar port with the Afghan border may also facilitate the consolidation of Balochistan's trafficking routes and turn Gwadar into a major drug trafficking hub. Heroin and opium seizures at Gwadar were very small compared to other entry and exit points in Pakistan in 2002-2008, but this may change as Gwadar's share of cargo increases.<sup>84</sup>

Opiates that transit through Balochistan are usually kept at Quetta or Dalbandin before being dispatched to i) eastern Iran for domestic consumption as well as further movement towards Turkey and Europe; ii) towards Karachi and the Makran Coast for shipment to Africa, South-East Asia or the Middle East; iii) for domestic consumption in Pakistan's major cities. Map 13 below illustrates some indicative routes for drugs trafficked through Balochistan.

Map 13: Generalized routes of drug trafficking via Balochistan



Source: Overview of the Drug Situation in Pakistan, UNODC, November 2010

82 Ibid

83 Ibid.

84 Ibid.

### 3.2.2 Precursors

Based on the production ratio of 1:7 (7 liters of acetic anhydride converts opium into 1 kilogram of heroin), UNODC estimates that between 475 tons or 1.1-1.3 million liters of acetic anhydride is trafficked into Afghanistan annually, primarily sourced from China, South Korea and India.<sup>85</sup>

Acetic anhydride trafficking routes to Afghanistan appear to roughly operate along major Afghan opiate routes – however in the reverse direction. Map 14 illustrates the primary acetic anhydride trafficking trajectories through Pakistan to Afghanistan.

Map 14: Acetic anhydride trafficking trajectories



Source: Overview of the Drug Situation in Pakistan. UNODC, November 2010.

The following are the five primary trajectories of precursor flows into Afghanistan via Pakistan:

1. Large consignments coming from Karachi, using mislabeling to evade detection, move to Afghanistan via Chaman or other illegal crossings in Balochistan, through KPK and the Torkham crossing in Khyber Agency or through FATA into south-eastern Afghanistan.
2. From Iran to southern Afghanistan via Balochistan. It is basically the drug trafficking routes being used in reverse.
3. Irregular landings of boats at Balochistan's coasts bringing in the chemicals that are then trafficked into Afghanistan
4. From China via the Khunjerab pass into eastern Afghanistan.
5. Trafficked from India with regular flows of goods and later trafficked into Afghanistan.

<sup>85</sup> The 1:7 ratio for opium and acetic anhydride processing for the production of heroin has not been officially verified and varies between regions. It has been assumed to be the actually employed production ratio for calculation purposes in this study.

Key assumptions that can be derived from anecdotal evidence include: i) all trafficked and diverted acetic anhydride passes through Pakistan, primarily using loopholes in the Afghan Transit Trade protocol - this is also because heroin laboratories are reportedly contiguous to Pakistan's borders; ii) 80,000-100,000 liters are retained in Pakistan for indigenous processing while 1.0-1.2 million liters are exported to Afghanistan; and iii) The import price of acetic anhydride ranges between US\$ 200 and US\$ 230 whereas the export price ranges between US\$ 300 US\$ 400.

#### **Box 2: The Afghanistan-Pakistan Transit Trade Agreement (APTTA)**

The transit trade agreement initially signed by Afghanistan and Pakistan in 1965 allows Afghan imports and exports to transit through Pakistan from three land border routes linking the two countries (Torkham, Ghulam Khan and Chaman/Spin Boldak). The transit goods are exempt from duties or customs tariffs and screening. This poses an enormous challenge to the prevention of trafficking in precursor chemicals, weapons and other contraband.

Drug precursor chemicals, such as acetic anhydride, are currently not part of the negative list of the Customs for ATTA. Legally, Customs cannot stop the flow of precursor chemicals unless misdeclared by the consigner. Furthermore, the Customs Act 1969 is not enforced in FATA which means that shipments of drugs and precursors cannot be checked and interdicted as they pass through FATA.

A new transit trade agreement between the two countries was signed in October 2010, in which the two sides agreed to share customs information against unauthorised trade. The new deal allows Afghan goods to transit Pakistan in sealed containers, secured by tracking devices. The containers will be re-examined to ensure that their seals are intact and will be certified before leaving border control at Torkham. According to the 2010 agreement, the movement of trucks will be subject to a 100 percent bank guarantee of the leviable duties and taxes. If the goods do not leave Pakistan within a specified time, the guarantees will be confiscated by the customs authorities. The agreement could not be implemented after the Afghan government objected that 100 percent guarantees were excessive.

It took effect in June 2011 when Pakistan agreed to allow Afghan trucks to drive without payment of tax across Pakistani territory against a bank guarantee equivalent to 25 percent of the leviable duties and taxes. The revised agreement with a loose safety valve, however, may not ensure effective control over cross-border smuggling.

Although early negotiations on the APTTA also granted transit rights to Afghanistan's trade with India, the final agreement on these rights has yet to be arrived at, reducing the threat of another possibly important axis of precursor trafficking.

### **3.2.3 Cannabis**

Anecdotal evidence suggests that the trafficking of hashish into Pakistan is experiencing an increase, possibly in response to an increase in regional demand. Processing cannabis plant into resin 'garda' and further to hashish is a fairly elementary process, which makes it attractive for local producers in regions of Afghanistan where opium cultivation is uncommon (mostly northern Afghanistan and the FATA region in Pakistan).

A precise estimate of the volume of hashish flowing through Pakistan is not available. Given that cannabis resin is usually traded for regional consumption, the key assumption is that Pakistan receives about 500 metric tons of hashish annually. Pakistan seized 109 metric tons of cannabis resin in 2009.

### **3.2.4 Synthetic drugs**

Pakistan and the region surrounding the country have experienced an increase in the trade and consumption of synthetic drugs in recent years. This ranges from the huge and established demand and production in China to the early development of consumption in Afghanistan. Between 1999 and 2008, seizures of Amphetamine-type stimulants (ATS) worldwide increased more than 30 percent from 39 metric tons to 51.3 metric tons. A significant amount of this increase was seen in Asia, notably in the Middle East and South West Asia, with unprecedented increases (approximately

eight-fold) in seizures of amphetamine-containing pills sold as *Captagon*.<sup>86</sup> Reports from Iran have also pointed to large amounts of synthetic drugs entering the country.<sup>87</sup>

In addition to the rise in the seizure of synthetic drugs destined for the region, there are signs that their manufacturing within the region is on the rise due to the number of uncovered synthetic manufacturing laboratories and the growing prevalence of relevant precursor chemicals. Iran seized four clandestine methamphetamine laboratories – first seizure of synthetic drugs reported ever – and has since reported quickly decreasing street prices and an increase in methamphetamine use.<sup>88</sup> India is one of the world’s largest exporters of methamphetamine precursors (ephedrine and pseudoephedrine), and the size of its chemical and pharmaceutical industry makes it a target of international drug syndicates involved in the manufacturing of synthetic drugs.

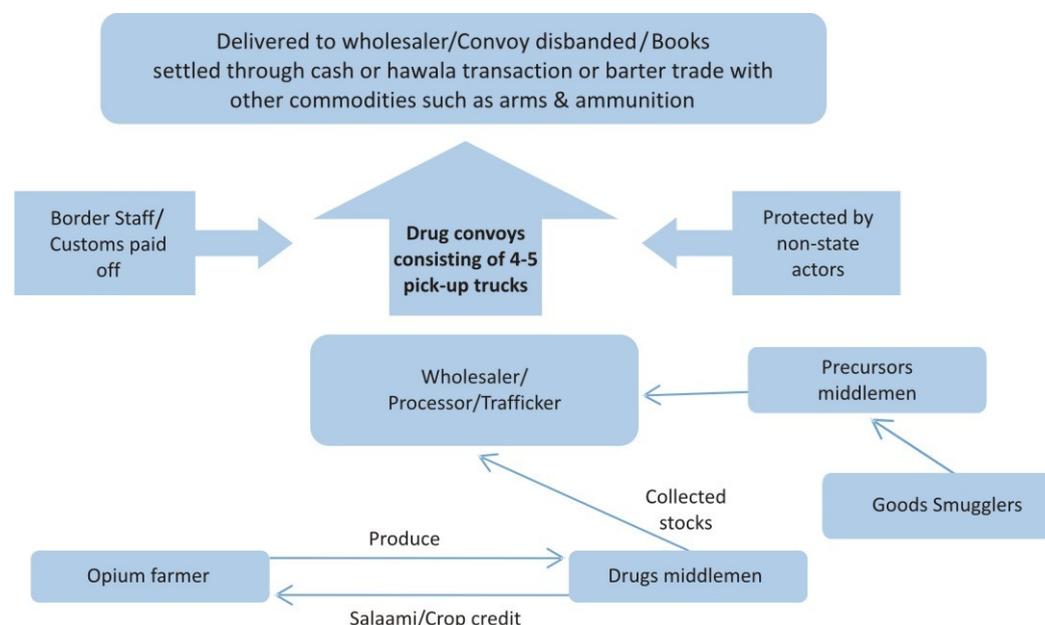
In China, the number of clandestine laboratories seized over the past four years has increased considerably, some of which have been of industrial scale. Significant seizures of precursor chemicals have also been reported from China over the course of the past three years.

Given these trends in the neighborhood, it is striking that there is little official information from Pakistan on methamphetamine. There have been cases elsewhere that have apparently included trans-shipment of pseudoephedrine through Pakistan. In April 2011, 4 kg of methamphetamine was seized at Karachi airport from a passenger. Beyond this, there is no reliable information available on methamphetamine consumption, production, trafficking or precursor inputs.

### 3.3 Modus operandi

Trafficking in Afghan opiates is very lucrative, generating some US\$ 61 billion in illegal funds in 2009 (out of US\$ 68 billion for the global illegal opiate trade, including other production sources).<sup>89</sup> See Figure 18 for a generalized depiction of the modus operandi of drug trafficking.

Figure 18: Drug trafficking modus operandi



<sup>86</sup> UNODC, *World Drug Report*, 2010, pg. 98.

<sup>87</sup> Anti-Narcotics Police of Iran, *Drug Report I.R. of Iran – 2009*, March 2009.

<sup>88</sup> DCHQ Deputy SG, Prices of the synthetic drugs have dropped to one fourth, 6 October 2009, Islamic Republic of Iran National Drug Headquarters; UNODC *World Drug Report 2009*.

<sup>89</sup> UNODC, *Global Afghan Opium Trade: A Threat Assessment*, 2011.

Based on consultations and research conducted for the purposes of this study, drug traffickers reportedly have a tightly knit network which does not normally utilize Hawala and Hundi system available to the general public, nor do they use common carriers of goods and freight forwarders. They primarily work through trusted middlemen. Indications are that they prefer to settle accounts on books, or through the exchange of goods such as arms and ammunition and other necessities since this is less risky than carrying cash.

Even when financial transactions are made, accounts are settled externally through off-shore accounts, benami accounts or through exclusive Hawala transactions using personally trusted partners (mostly family members). Regular exporters who have links to the drugs business are also believed to be facilitating international transfers of drug money. Due to under-invoicing, exporters keep a positive balance of account abroad. These balances are used to settle transactions.

There are indications that the 5000 rupee banknote, due to its portability and easy availability, has added significant liquidity in the drugs market and other black markets. Convoys consisting light four-wheel drives are owned and operated by the drug traffickers themselves, freeing them from the need to hire transporters and truckers.<sup>90</sup>

While it is difficult to be definitive about the sums of money involved, it is likely that transnational organized crime groups are the main beneficiaries of illegal trade in drugs. Reports from Afghanistan suggest that most insurgent elements are content with taxing drugs trade rather than attempting to become active participants in it. There is also evidence, however, that some insurgents involve themselves directly in heroin supply chain, including in the procurement of acetic anhydride. Non-state actors based in Pakistan may have access to only a fraction of the value of Afghan opiate exports but this is, nonetheless, enough for them to support their logistics, operations and recruitment.<sup>91</sup>

Law enforcement officials interviewed for the purposes of this study believe that 40 percent of the financial requirements for certain non-state groups are said to be financed through kidnappings for ransom, while a major chunk of the remaining financing is generated by protecting convoys of drug traffickers.<sup>92</sup> This cannot be verified independently.

Anecdotal evidence suggests that businessmen, particularly exporters, may have links with drug traffickers. A law enforcement official pointed in an interview to a heroin trade nexus between drug traffickers of Kurram Agency and some exporters in northern/central Punjab. Certain key informants interviewed for the purposes of this study claimed that there were linkages between criminal networks and Pakistan's economic infrastructure, however, this is unsubstantiated and requires further research.

Some suspect that part of the income from narcotics could be flowing into Pakistan's mainstream economy as laundered money is invested in real estate, corporate businesses and stock markets. Though the quantum of these funds can be hypothesized to be 10-15 percent of the total opiate proceeds in Pakistan (US\$ 90 million-180 million), no hard evidential data substantiates this hypothesis. It is worthy of further investigation.

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<sup>90</sup> Key informant interviews.

<sup>91</sup> UNODC, *The Global Afghan Opium Trade*, July 2011.

<sup>92</sup> Key informants interviews.

### Box 3: Alternate livelihoods and employment creation strategies

Following the Soviet withdrawal from Afghanistan, the United States and Western pressure pushed Islamabad towards curtailing poppy cultivation from a high of 800 metric tons to 24 tons in 1997 and 2 tons by 1998. Crop substitution projects in the then NWFP proved to be extremely successful.

An official of the KPK government says farmers in the FATA region must be provided with subsidies and incentives to quit harvesting opium poppy and other illegal crops, because they have very limited land holdings. Cultivating half an acre of opium poppy generates enough income to feed a farmer and his family for a year, but half an acre of wheat or maize does not. The farmers can also benefit from non-traditional crop substitution. In Bajaur Agency, for example, where hailstorms are frequent, the government introduced tough-skinned Dutch tomatoes. Bajaur has since been the largest producer of off-season tomatoes (NAS/DEA project). Similarly, Napier grass was introduced in Bajaur agency which allows efficient livestock fattening.

The official suggests that the emphasis needs to be on building better infrastructure and services to support agricultural output in the region. Building new dams will help irrigate more land in FATA, for instance the Jabba dam will irrigate parts of Khyber Agency that are now barren. The farmers in existing farmlands such as the Khajuri Plains in Khyber Agency need technical support on improving yields and crop varieties. Cooperatives can enable farmers to access agricultural value chains. The farmers need to be provided with better livestock breeds and veterinary services, since livestock is an important source of livelihoods in the FATA region. Efforts at industrializing the tribal areas did not give good results, given the inherent agricultural nature of their local economies.

### 3.4. Proceeds of drugs and precursors trafficking

The study uses the standard national income identity to estimate the direct economic value of the drug trafficking economy. The quantity and price data of opium, heroin, cannabis and acetic anhydride have been extracted from secondary sources of information, particularly UNODC's World Drug Reports. The assumed quantities of the drugs and their precursors have been explained in earlier sections. The national income identity is as follows:

$$GDP = consumption + investment + (government\ spending) + (exports - imports)$$

In estimating the economic value of drugs, government spending is not added due to the unavailability of reliable consolidated data for law enforcement agencies involved in drug enforcement. The assumption is that the overall relevant budget allocation is a small percentage of the total value of the illegal economy. The identity used for calculating the direct economic value of narcotics in Pakistan is, therefore, as follows:

$$Income\ (Economic\ Value\ or\ EV\ per\ annum) = Domestic\ Income + Trade\ Income\ (Exports - Imports)$$

After allowing for government expenditures and yearly price adjustments, the average annual local direct economic value of drugs and precursors is US\$ 910 million-US\$ 1.2 billion or PKR 77 billion-PKR 102 billion in terms of 2011 market prices (see Box 4 for calculations). This value multiplies exponentially as the drugs reach destination markets – in that sense the value of the heroin transiting Pakistan is approximately US\$ 27 billion.

A recent UNODC report calculates the value of local drug economy in Pakistan as equivalent to \$ 1.2 billion. It estimates the total worth of domestically consumed opiates at US\$ 400 million whereas US\$ 700 million is reaped through export.<sup>93</sup> The small difference in estimated values in the two reports is due to difference in methodology, prices and volume used for calculations. In this study, the average domestic price of heroin has been used, which is US\$ 2505/kg whereas the price of heroin used in the other report is US \$ 5000/kg.

<sup>93</sup> UNODC, *The Global Afghan Opium Trade; A Threat Assessment*, 2011.

**Box 4: Calculation of the direct economic value of drug economy**

$$\begin{aligned}
 EV &= [(OQ_d \times OP_d) \text{ opium domestic consumption} + (OQ_e \times OP_e) \text{ opium export} - (OQ_i \times OP_i) \text{ opium import}] + \\
 &\quad [(HQ_d \times HP_d) \text{ heroin domestic consumption} + (HQ_e \times HP_e) \text{ heroin export} - (HQ_i \times HP_i) \text{ heroin import}] + \\
 &\quad [(CQ_d \times CP_d) \text{ cannabis domestic consumption} + (CQ_e \times CP_e) \text{ cannabis export} - (CQ_i \times CP_i) \text{ cannabis import}] + \\
 &\quad [(PQ_d \times PP_d) \text{ precursors illegal domestic consumption} + (PQ_e \times PP_e) \text{ precursors export} - (PQ_i \times PP_i) \text{ precursors import}] \\
 EV &= [(80 \text{ mt} \times 330,000 \text{ US\$/mt}) + (1000 \text{ mt} \times 400,000 \text{ US\$/mt}) + (80 \text{ mt} \times 448,000 \text{ US\$/mt})] \\
 &\quad \text{opium} - [1500 \text{ mt} \times 120,000 \text{ US\$/mt}] \text{ opium import} + [(19 \text{ mt} \times 2,505,000 \text{ US\$/mt}) + (138 \text{ mt} \times 4,776,000 \text{ US\$/mt})] \\
 &\quad \text{heroin} - [160 \text{ mt} \times 2,256,000 \text{ US\$/mt}] \text{ heroin import} + [(400 \text{ mt} \times 275,000 \text{ US\$/mt})] \text{ Cannabis Resin} - [500 \text{ mt} \times 100,000 \\
 &\quad \text{US\$/mt}] \text{ Cannabis Resin import} + [(100,000 \text{ litres} \times 230 \text{ US\$/litre}) + (1,1,00,000 \text{ litres} \times 400 \text{ US\$/litre})] \\
 &\quad \text{Acetic Anhydride} - [1,200,000 \text{ litres} \times 200 \text{ US\$/litre}] \text{ Acetic Anhydride import} \\
 &= \text{US\$ } 910,963,000
 \end{aligned}$$

It is important to note that the calculation of local drug economy is likely to be a significant underestimate given that there are considerable gaps in information. For instance, it is suspected that drug use in Pakistan is much higher than the 628,000 chronic opiate users currently estimated.<sup>94</sup> In addition, there is no information on heroin purity, which results in distorted price data. Finally, synthetic drugs and their precursors have been excluded from this calculation due to the lack of data available.

<sup>94</sup> UNODC, *Assessment of the National Drug Treatment and Rehabilitation System of Pakistan*, April 2010.



## 4. HUMAN TRAFFICKING AND MIGRATION

Pakistan is a destination, transit and source country for both human trafficking and migrant smuggling.<sup>95</sup> Human trafficking to and from Pakistan includes the trafficking of mostly women and children for sex trade, child labor, and bonded labor.<sup>96</sup> In Pakistan's context, migrant smuggling is a more prevalent than human trafficking, primarily involving illegal emigration to Europe and the Middle East. Pakistan is also a transit country for illegal emigration of Afghans to Europe, the Middle East and Australia.

In Pakistani law the distinction between human trafficking and migration is not clear (see Annex I). Given that these terms are not interchangeable, this is a glaring flaw – migrant smuggling refers to a situation where a border is crossed, whether voluntarily or otherwise, whereas trafficking can also take place internally. FIA figures do not differentiate between the two and subsume both under 'human trafficking'. This, in part, is a reflection of the lack of understanding of the differences between the two and in part is due to the inter-changeability of the phenomenon itself – many irregular migrants become victims of trafficking upon arrival in destination countries (or in transit).

Estimating the size of the migrant smuggling and human trafficking economy as well as extrapolating trends from interceptions and deportations figures are challenging, given the murkiness of available data. Nevertheless, a rudimentary attempt has been made, with the expectation that it leads to further and deeper research. Also, for the above mentioned reasons, no differentiation has been made in the calculations of human trafficking and migrant smuggling.

### 4.1. Trends in migrant smuggling

Migration as a human phenomenon is much older than the history of human settlement and continues till this day.<sup>97</sup> The movement of individuals from areas of relative economic depression to those of economic prosperity and opportunity seems as difficult to suppress as it seems natural. The presence or absence of political and social strife, the main drivers of migration, is closely linked to economic prosperity.

Nearly two-thirds of the world's 214 million migrants live in wealthy countries, sending homes more than US\$ 300 billion in remittances every year, an amount that dwarfs international aid flows.<sup>98</sup> Human migration is one of the forces driving human progress and development. In some cases, entire communities subsist almost entirely on remittances. While globalization has resulted in greater openness in relation to trade and capital flows, strongly advocated by industrially developed states, international labor mobility is still restricted. This is primarily because of political and cultural reasons and issues involving social cohesion.

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<sup>95</sup> As Annex I indicates, the international definitions distinguish between trafficking and migrant smuggling. In short, human trafficking is about exploiting a person against his or her will in order to make a financial or material profit whereas migrant smuggling is about facilitating a person's illegal entry or stay in(to) a country. In Pakistani law, this distinction is not clear. In an interview with Immigration Wing officials of the FIA, they indicated that "smuggling" refers to a situation where a border is crossed, whether voluntarily or otherwise, whereas "trafficking" can take place internally also. For purposes of this paper, we will stay with the international definitions.

<sup>96</sup> For the purposes of this paper, the main focus is on human trafficking and migrant smuggling out of Pakistan to other destinations whereas only few comments will be provided on internal human trafficking as well as human trafficking and migrant smuggling into Pakistan.

<sup>97</sup> Pries, L., *Transnational Migration: New Challenges for Nation States and New Opportunities for Regional and Global Development*, Center for International Relations, Warsaw, January 2006. p. 1.

<sup>98</sup> UN News Service, *Migrants underwrite development through their remittances – Ban e*, 19 May 2011.

The economic value of remittances for developing countries has helped push the issue beyond communities and it now impacts states.<sup>99</sup> Remittances, through legal channels, from Pakistanis abroad surpassed US\$ 9 billion in the first 10 months of fiscal year 2010-2011<sup>100</sup> and were expected to reach US\$ 12 billion for the entire year. Pakistan has looked for ways to increase emigration, i.e. export of lower-skilled labor, since 1960s and, especially, since 1970s. The country experienced so-called 'brain drain' just as it was able to profit from demand for unskilled or low-skilled labor in the UK in 1960s and the Gulf countries in 1970s and 1980s.

It is possible to cluster migration into two types -- South to North and South to South. The two most prominent South to North flows are the movement of workers from Latin America to North America and from Africa to Europe.<sup>101</sup> Receiving countries see migrant workers as a relatively quick solution to shortages in unskilled labor as well as in skilled and replacement labor required by ageing populations. In richer countries in the Middle East, almost all other low or unskilled sectors, such as construction, usually depend on migrant labor. The challenge is to effectively control migration for required skills and numbers. Moreover, the economic utility of migrant workers needs to be balanced with the ability to manage economic, political, cultural and social repercussions of changing the demographics of local communities.

A research study estimated that 74 million, or nearly half, of the migrants from developing countries reside in other developing countries. Most of this South to South migration is estimated to take place between countries with contiguous borders and most of it appears to occur between countries with relatively small differences in income.<sup>102</sup> This form of migration often makes little or no difference to the migrants' destitute state and abject poverty. The poverty, vulnerability and actual exploitation might even be worse in the case of refugees.

FIA documents the number of irregular migrants intercepted at Pakistan's borders or further inland. Offshore detection is typically carried out by the Maritime Security Agency (MSA) or the Pakistan Coast Guard (PCG). These agencies do not maintain a systematic record of such detections. FIA also documents numbers of persons officially deported to Pakistan from other countries.

According to FIA figures, migrant smuggling routes extend from Pakistan mainly to Europe and the Middle East, as well as East Asia. Migrant smuggling to Europe (where migrants are primarily Pakistani nationals) has the largest economic footprint in terms of fees paid to smugglers and the numbers of migrants involved. Once they are inside the EU, it is relatively easy for irregular migrants to move across countries in continental Europe. While the EU's freedom of movement does not apply to irregular migrants, in practice it means there are less stringent checks at (land) border crossings within the EU Schengen area.

FIA reports that, pre 9/11, migrants employed techniques such as applying for political asylum, mainly in Western countries, overstaying after entering the country using valid visas, or even entering with forged documents. With significantly strengthened immigration systems in Western countries and the Middle East after 9/11, the most common mode of migration has reportedly become the use of irregular border crossings, traveling overland all the way through to Europe, or

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<sup>99</sup> Pries, L., *Transnational Migration: New Challenges for Nation States and New Opportunities for Regional and Global Development*, Center for International Relations, Warsaw, January 2006. p. 3.

<sup>100</sup> Dawn, *Remittances surpass annual target of US\$ 9bn*, May 11, 2011.

<sup>101</sup> UNODC, *The Globalization of Crime: A Transnational Organized Crime Threat Assessment*, 2010.

<sup>102</sup> Dilip Ratha and William Shaw, *South-South Migration and Remittances*, Development Prospects Group, World Bank, January 2007.

<<http://siteresources.worldbank.org/INTPROSPECTS/Resources/South-SouthmigrationJan192006.pdf>>

through sea routes to reach the Middle East. FIA reports that migrants using land/sea routes avoid carrying documents.

For Pakistani authorities to be able to apprehend an irregular migrant, the person must be attempting to illegally cross the border. This includes the use of fraudulently obtained, or forged, documents, attempting to travel without a valid passport, or using a non-official border-crossing.

Deportees to Pakistan include not just smuggled migrants but also those travelers that left Pakistan on authentic visas but overstayed.<sup>103</sup> Others may have applied for political asylum after having traveled on functionally legal documents only to be deported after exhausting the asylum process without success. Those apprehended for attempting bogus marriages and other breaches of immigration or criminal law of the destination country may also be deported even if they departed Pakistan on functionally legal travel documents. Those traveling with valid or functionally valid travel documents tend to use airports or official exit ports rather than less frequented, unofficial border crossings and land routes.<sup>104</sup>

In terms of the networks involved, research indicates that there appears to be little overlap between migrant smuggling and other types of trafficking (including human trafficking). The networks moving illegal goods and those moving people illegally across international borders tend to remain separate. There is a lower level of social stigma attached to migrant smuggling compared with drug trafficking, suggesting that this gives migrant smugglers a strong reason to stay away from drugs. Moreover, because of the additional risk involved in drug trafficking, networks involved in it are more insular and require different skills, contacts and distribution arrangements than do networks involved in migrant smuggling.<sup>105</sup>

#### 4.1.1. Incentives to migrate

The key pull factor for Pakistanis to migrate to the Middle East is the high demand for semi or unskilled labor in this region. The Middle Eastern economies are strongly dependent on migrant labor, although the demand for unskilled labor has recently decreased, caused by the end of the construction boom. Poor and lower class migrants make use of the lower costs and fees charged by smugglers to reach these countries. Typical earnings on offer from work in these countries are proportionately low, depending on the type of work, and prospective migrants are reported to often have expectations that are not realized. Immigration laws in these countries are strict and deportation as a result of any breach of the law is usually swift.

For the UK and Europe, the key attraction for many irregular migrants remains the possibility of obtaining asylum, even after the recent tightening of laws. In the UK, for example, irregular migrants can expect the asylum application and the following appeal process to take a year or more, during which they can stay in that country.<sup>106</sup> While an applicant waiting for a final status determination is usually not allowed to work, irregular migrants often use their local networks of relatives and friends to work illegally. The UK remains one of the most attractive destinations because of its large Pakistani diaspora, which makes it easier to adjust in a new culture and find work. The diaspora

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<sup>103</sup> These are cases where Pakistani authorities cannot generally find problems with the authenticity of travel documents at the point of departure. Travelers may nevertheless have made false representations to the visa issuing authorities of the destination country or genuine passports may have been fraudulently obtained from the passport authorities.

<sup>104</sup> FIA notes that many of the deportees from Oman, for example, are guest workers being returned as they have become surplus to requirement due to that country's construction boom winding down, implying that they are not necessarily immigrants who had entered the country illegally in the first place. Source: Ministry of Interior, Government of Pakistan, "Combating Human Trafficking", 2005.

<sup>105</sup> UNODC, *Crime Facilitating Migration from Pakistan and Afghanistan*, January 2010.

<sup>106</sup> A BBC news report stated that there was a backlog of 450,000 asylum applications in the UK in 2006. Many of the waiting applicants had been in the UK for more than 6 years. See BBC News, December 10, 2008.

community continues to encourage marriages of their daughters with Pakistani nationals, which provides opportunities for irregular migrants to be legally naturalized as permanent residents.

The main push factor for irregular migration is the desire for upward social mobility, within the local context of migrants' rural or urban milieus, rather than by poverty as such.<sup>107</sup> This is expanded further in the section on migrant profiles below.

#### 4.1.2 Migrant profiles

In general, irregular migrants from Pakistan are young men, between the ages of 18 and 50. Previous research and consultations with law enforcement personnel indicates that almost all Pakistani irregular migrants to Europe are literate, and many have at least high school qualifications. The fact that they can meet the cost of a passage, can afford the smugglers' fees and other costs indicates that they generally do not belong to the poorest families – instead, they usually come from lower-middle income households, with enough exposure to television, films and other forms of media, to be confident about adjusting to life in a foreign country.

Most of the irregular migrants originate from a small number of regions in the country. Tracing the history of the phenomenon, some FIA officials suggest that the interest in finding work in Europe was fueled after the migration to the UK in the 1960s. To many communities in relatively prosperous enclaves in north and central Punjab and the Mirpur area of AJK, this migration showed the material benefits accruing to families of migrants.

In an interview with Voice of America (VoA) in 2006, the then Director General of FIA, stated that 96 percent of all irregular migrants intending to go to Europe and intercepted at the Pak-Iran border come from Punjab and 90 percent of those from Punjab come from the four central Punjab districts of Gujrat, Sialkot, Mandi Bahauddin and Gujranwala.<sup>108</sup> FIA officials also confirm that some districts of KPK, mainly Swabi and Mardan, also contribute noticeable numbers of migrants intending to go to Europe.

The Middle East tends to attract migrants from a different demographic background – often from relatively poor families from southern Punjab, Sindh (particularly Larkana, Sukkur and Shahdadkot), southern KPK and FATA. Members of the Hazara tribe from Quetta are also regularly found among groups of irregular migrants to the Middle East and Australia. See Table 13 below for a summary of general characteristics of migrants based on their intended destinations.

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<sup>107</sup> This view was also expressed by FIA officials in a program on illegal migration broadcast on the TV channel Dawn News (see Dawn Investigation Cell,

<http://www.youtube.com/watch?v=RmgAdrAMQbc> [accessed 15/04/2011]).

<sup>108</sup> Interview with VOA, July 1, 2006.

Table 13: General characteristics of smuggled migrants

Destination	Characteristics
The Gulf and Middle East (overland/sea)	<ul style="list-style-type: none"> <li>- Low income</li> <li>- Low education</li> <li>- Low skilled</li> <li>- 15 – 30 years of age</li> <li>- Revolving door return/re-entry</li> <li>- Price sensitive</li> </ul>
European Union (overland/sea)	<ul style="list-style-type: none"> <li>- Middle income or land holders</li> <li>- Strong diaspora ties</li> <li>- 18-30 years of age</li> <li>- Mid to long term intentions</li> <li>- Somewhat price sensitive</li> </ul>
European Union (air)	<ul style="list-style-type: none"> <li>- Middle and high income</li> <li>- Well educated &amp; English skills</li> <li>- Asylum seeking</li> <li>- Reputation sensitive</li> </ul>
European Union and North America (air)	<ul style="list-style-type: none"> <li>- Liquidated assets</li> <li>- Asylum seeking/claim to be Afghans</li> <li>- Reputation sensitive</li> <li>- Strong diaspora ties</li> <li>- Overstay intentions</li> </ul>
To Australia (air/boat)	<ul style="list-style-type: none"> <li>- Asylum seeking</li> <li>- Afghans or claim to be Afghans</li> <li>- Strong diaspora ties</li> </ul>

Source: Crime Facilitating Migration from Pakistan and Afghanistan, 2010, UNODC

A Human Rights Commission of Pakistan (HRCP) study of cases going through the Special Immigration Court in Quetta, Balochistan, found that 99 percent of the deportees prosecuted in the court came from Punjab, as shown in Table 14 below. Table 15 gives a quantitative comparison of the contribution from the most relevant districts within Punjab.

Table 14: Origins of deportees charged in the Special Immigration Court, Quetta

S #	Province	2005	2006	2007	2008	Total%	Total deportees
1	Balochistan	0	.1	.02	.04	.07	219
2	Sindh	0	0	0	0	0	0
3	NWFP	0	.1	.01	.01	.03	94
4	Punjab	100	99.9	99.7	99.5	99	30,993
5	Total%	100	100	100	100	100	31,306

Source: HRCP, Balochistan Chapter, Human Trafficking Through Quetta, p. 8.

Table 15: Primary irregular migrant source districts in the Punjab based on deportee data<sup>109</sup>

Tier 1: High Outflow	Tier 2: Medium Outflow	Tier3: Low Outflow
Gujranwala	Multan	Lahore
Gujrat	Faisalabad	
MandiBahuddin	Mianwali	
Sialkot	Kharian	
	Rawalpindi	

Source: Compiled from Dawn Online, Various Articles, 2005- 2008

Afghanistan’s porous borders with Pakistan are increasingly used by Afghan migrants. The Soviet invasion of Afghanistan resulted in almost 3 million Afghan refugees in Pakistan. Another 2 million sought refuge in Iran (which itself has seen a steady, though small, outflow of refugees and emigrants since the revolution of 1979).<sup>110</sup> In the last few years, while the number of Afghan refugees has almost halved, the number of Afghan irregular migrants travelling from or through Pakistan to Europe have grown significantly.<sup>111</sup> It was comparatively easier for refugees from Afghanistan to make a case for political asylum in European countries and the US during the rule of the Taliban as well as during the Soviet military campaign before that. Even though the rules and criteria for asylum have become stricter, conditions in Afghanistan still remain very difficult and this explains why the number of irregular Afghan migrants seems to have steadily increased.

There are also reports that Pakistan is a destination country for irregular migrants and victims of trafficking from Bangladesh. Bangladeshis may also be using Pakistan as transit for onward irregular migration to the Middle East as well as Europe. Pakistan’s National Alien Registration Authority (NARA), which operates under the Interior Ministry, has been registering illegal immigrants since January 2002. Little has been studied on the issue and it is worth exploring further.

#### 4.1.3 Smuggling routes

Most of the major routes typically taken by migrants are land routes as geographical accessibility remains an important structural constraint to other desirable locations (such as North America). This is not to say that there are not instances of irregular migration to these locations (especially facilitated by the Pakistani diaspora in those locations), but that they may be not of the same scale as the more frequented routes.<sup>112</sup>

The overland and sea route is for the masses. This type of service is the cheapest, the most flexible and requires few to no documents. Unlike land or sea routes, the air route is the most risky method in terms of being caught because of tighter security and scrutiny at most international airports. But proportionate to risk, the rate of success from air route is quite different to that from the land/sea route, with officials estimating that 8 out of 10 succeed first time by air, whereas only 3 out of 10 make it successfully by land.

Designated border crossings points in Pakistan include Wagah and Khokrapar at the eastern border with India, Khunjerab on the northern border with China, Taftan and BP 250 (a post in Balochistan) at the western border with Iran, and Chaman and Torkham, at the western border with Afghanistan.

<sup>109</sup> Basic Education for Awareness Reforms & Empowerment (BEFARe), *Baseline Study on Illegal Migration, Human Smuggling and Trafficking in Pakistan*, Peshawar, June 2009. p. 70.

<sup>110</sup> UNHCR, *Country Operations Profiles for Pakistan and Iran respectively*, 1988.

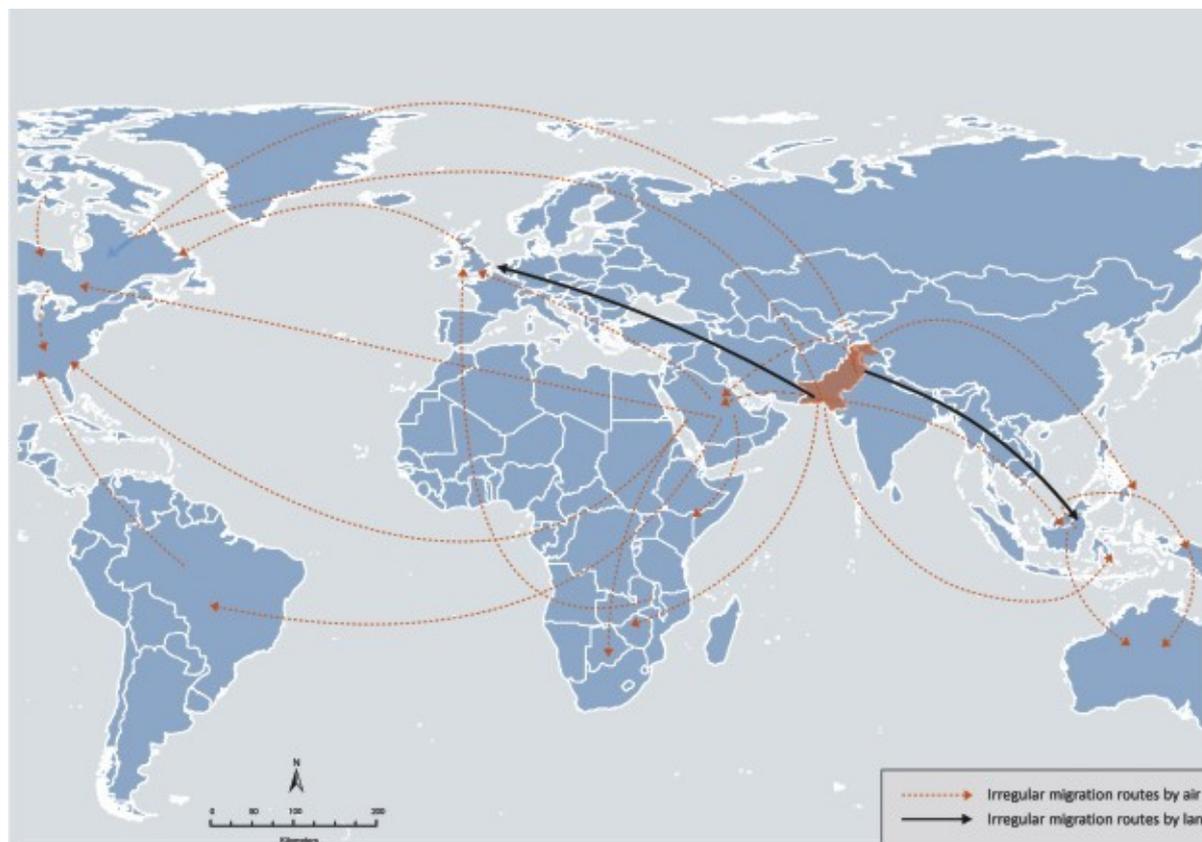
<sup>111</sup> Peter, L., *EU-Pakistan Deal Sharpens Debate on Migrants*, BBC News, 16 July, 2010.

<sup>112</sup> UNODC, *Crime Facilitating Migration from Pakistan and Afghanistan*, January 2010.

The only designated seaports are Karachi Port and Port Qasim - both located in Karachi - Gwadar Port and small jetty of Ghass Bandar in Balochistan.

As a result of research carried out for the purposes of this study, the following main routes of irregular migration and migrant smuggling have been identified. These are not to be taken as definitive especially in the case of overland movement in which the mapping of the journey is determined en route.

Map 15: Key migrant smuggling and human trafficking land and air routes from Pakistan



#### Routes through Iran and Oman to the UAE and Saudi Arabia

This route starts with overland travel from Taftan or Mand Billo (in the vicinity of BP 250) into Iran. It allows for a shorter sea journey across the Persian Gulf off the Iranian coast (for example, Jusk in Hormuzgan) to Oman for onward overland travel into UAE and Saudi Arabia. If the destination is UAE, this may involve landing on the Oman coast and then onward overland travel to the UAE. Out of the three countries, Oman is the more popular destination (based on the deportee data recorded by FIA). Often, the first leg of the journey out of Pakistan is undertaken on the basis of a valid visa. For example, potential migrants often claim to be pilgrims en route to sites of pilgrimage in Iran and Iraq. Obtaining hajj or umrah visas (for religious pilgrimage) in Saudi Arabia and then overstaying the visa there is also a common method. This form of irregular migration is often not facilitated by smugglers, but may be facilitated by the Pakistani diaspora in these countries.

A few irregular migrants also set sail off the Makran Coast headed for Oman or the UAE. This is a longer sea journey and requires sturdier boats with better provisions in terms of food and water for the journey.

#### Routes through Iran and Turkey to Greece

Greece's 128-mile long border with Turkey is particularly under pressure from irregular migrants. Greece accounted for more than 3 out of 5 migrants entering the EU illegally in the third quarter of

2010.<sup>113</sup> Almost all of this migration is facilitated by smugglers. The Greek Government has announced plans to erect a fence over a strategic 12.5 miles length of the border<sup>114</sup> near the Greek city of Orestiada as a first stage of a longer term plan to fence the entire 128-mile border.<sup>115</sup>

The overland route through Iran to Greece is the most popular for those traveling to Europe, as it avoids security checks at airports. The journey typically starts at Karachi, with potential migrants traveling by bus to Mand, a border town in Balochistan. Overnight stays are normally arranged at Mand, and border crossings into Iran typically take place by foot. En route, migrants are normally housed in safe houses in Iran and Turkey. Pilgrims on valid visas to religious sites in Iran and Iraq may also take this route through Turkey.

Increasingly, after a spate of accidents on overcrowded vessels, the migrants prefer land route into Greece from Turkey, across River Evros, over the sea route for the last leg. But even while crossing the river, many migrants are known to have drowned. The authorities routinely dredge out the corpses of drowned migrants who are often buried on a mound on the river bank. It has been observed that migrants from areas of conflict are confident enough of claiming political asylum so they prefer open rather than clandestine landings at the destination when they take the maritime route for at least the last leg of their journey. Some law enforcement officials are of the opinion that Pakistani migrants prefer land routes because they think that dangerous travel conditions could help them gain political asylum.

#### Routes through Central Asia to Eastern Europe

According to figures published by Frontex, 60 to 80 percent of all irregular migrant detections at Europe's external borders take place at the Greece-Turkey border. There is, however, evidence of small numbers of Pakistani nationals, along with Sri Lankans and Bangladeshis, using the Central Asian route.<sup>116</sup> Pakistani migrants usually fly from Pakistan to one of the Central Asian Republics (CARs) and then take the land route, by automobile or on foot, into the Russian Federation. Others might fly in from Dubai before following the same land route into Russia.<sup>117</sup> Some taking the Central Asian route are headed to Turkey for onward travel to Greece rather than taking the Eastern Europe route into the EU.

#### Routes through the Middle East and North Africa to Italy and Spain

Pakistani irregular migrants are known to fly to Egypt and then take the land route to Libya or fly directly to Libya, often through the UAE or other Middle Eastern countries. The short distances from Africa to Europe across the Mediterranean Sea make access by smaller boats possible into the EU and non-EU European states (especially due to the availability of affordable, handheld GPS navigators). Irregular migrants from North Africa and West Africa travel by sea to Spain, Italy and other Mediterranean countries.

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<sup>113</sup> European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (Frontex), FRAN quarterly, Issue 3, July-September 2010, Warsaw, January 2011. p. 10.

<sup>114</sup> Ekathimerini, Athens, English Edition, *Red tape, poor coordination exacerbate Greece's migration woes, experts say*, 15 July 2011.

[http://www.ekathimerini.com/4dcgi/\\_w\\_articles\\_wsite1\\_1\\_23/06/2011\\_395699](http://www.ekathimerini.com/4dcgi/_w_articles_wsite1_1_23/06/2011_395699) [accessed 15 July 2011].

<sup>115</sup> The Telegraph, *Greece to build 128-mile anti-migrant wall*, 03 January 2010.

<sup>116</sup> Gembická, K. et. al., *Baseline Research on Smuggling of Migrants in, from and through Central Asia*, International Organisation of Migration (IOM), Vienna, September 2006, p. 27.

<sup>117</sup> *Ibid.*

Research indicates that Pakistani and other South Asian nationals used that route between 2004 and 2008 but the numbers appear to have dropped markedly since then.<sup>118</sup> Anecdotal evidence provided by smugglers showed how business visas to West African countries are fraudulently obtained for Pakistani clients. Some of these Pakistani migrants may fly to a major West African city from the UAE.<sup>119</sup> A portion of these fake ‘business travelers’ then takes the trans-Saharan route to North Africa, rather than heading for the West African coast.

Map 16: General routes for migrant smuggling and human trafficking from Pakistan



### Routes through Malaysia and Indonesia to Australia

There are both legal<sup>120</sup> and irregular Pakistani immigrants in Malaysia. FIA officials, however, report that Australia is not considered a popular destination for Pakistanis.<sup>121</sup> Australian interception figures for this route confirm this. The route is popular with Afghan nationals, especially the Hazaras.<sup>122</sup> Most of these Afghans transit through Pakistan (see Box 5), however, FIA believes many

<sup>118</sup> UNODC, *The role of organized crime in the smuggling of migrants from West Africa to the European Union*, January 2011, p. 12.

<sup>119</sup> Migration Information Source, <<http://www.migrationinformation.org/feature/display.cfm?id=484>> (accessed 15 July 2011).

<sup>120</sup> The Government of Malaysia agreed in March 2005 to employ 100,000 Pakistanis in a bid to overcome labour shortage.

<<http://www.ft.com/cms/s/0/afbc71d4-9794-11d9-912c-00000e2511c8.html#axzz1SXvT3MPH>> (accessed 15 July 2011).

<sup>121</sup> The Australian, *Australia 'barely rates' for refugees*, April 22, 2009.

<sup>122</sup> Interview with FIA officials, April 14, 2011.

travel to Malaysia, Singapore or Indonesia by air on (functionally) valid visas<sup>123</sup> with the objective of onward irregular migration to Australia.

#### Box 5: Afghan's immigration to Australia

FIA data on deportations from Australia shows that a total of 9 Pakistanis were deported from that country from 2007 to 2010 on charges of entering illegally.<sup>124</sup> Nevertheless, the Australian Government is increasingly concerned about irregular Afghan migrants originating from Pakistan.

Two major incidents took place in 2009 where Afghan nationals obtained visas for Indonesia or Malaysia from Pakistan, and were found using sea routes attempting to cross into Australia from these countries. The first major incident reported in January 2009 involved a fishing boat with 22 Afghans onboard which sank off the coast of Bali, killing four of its passengers. In April the same year, Indonesian police detained 22 Afghans who were suspected of trying to leave the country illegally by boat. A further 70 arrests took place in May 2009, while 15 deaths on sea were reported in June 2009.<sup>125</sup>

By October 2010, news reports suggested that more than 2000 Afghans were being held in Australia's detention centers.<sup>126</sup> That same month, Australia announced plans to lift a ban on processing applications of asylum seekers from Afghanistan.

Although the issue of Afghan asylum seekers has come up continuously in the Australian press, Pakistani authorities were reluctant to comment on it, and reiterated that there is little or no evidence to suggest that Afghan nationals are illegally using exit points in Pakistan to begin their journey to Malaysia or Indonesia. It was also pointed out that Afghans who have valid visas for Pakistan, as well as other transit countries, cannot be stopped from leaving the country.

#### 4.1.4 Interceptions and deportations

Three possible fates await an irregular migrant: failure (such as being intercepted and deported; getting stranded; becoming a victim of various forms of crimes including human trafficking or in worst case scenario getting killed in an "accident"), deportation (sometimes following a period of detention), or successful completion of the irregular migration and assimilation into the destination country. Deportations are possible from the destination as well as any of the transit countries.

#### Deportation trends

Discussions with FIA officials, who receive deportees, suggest that they are normally treated as victims or as no more than minor criminals. Deportees are free to go home after recording their statements (under section 164 of CCP 1998 and under section 3 of Prevention and Control of Human Trafficking Rules 2004) as long as it is confirmed that they left and re-entered Pakistan using a valid passport, did not travel to a country the passport excludes, and did not commit a criminal act when overseas, which would be an offence under Pakistani law. Interviews with FIA officials suggest that the vast majority of deportees who return to Pakistan are allowed to leave after questioning. Only repeat offenders are caught, or those who are suspected representatives of smugglers or smugglers themselves.

There is an ongoing debate on whether the deportees should be treated as offenders, given that they knowingly participate in an illegal activity. But the costs of detaining deportees, who are

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<sup>123</sup> *Ibid.*

<sup>124</sup> Presentation made by Mr. Zafar Awan, Director Immigration, FIA, in Bali, Indonesia in June 2010 at a meeting of the Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime. Slide No. 28.

<sup>125</sup> For details, see blogpost by Afghan journalist Abbas Daiyar dated June 8 2009 <<http://kabulperspective.wordpress.com/2009/06/08/afghans-immigrants-in-indonesian-jails-where-is-unhcr/>>. Website accessed May 27 2011.

<sup>126</sup> Voice of America News, *UN welcomes Australia's move to lift Afghan asylum ban*, October 4 2010.

essentially economic would-be migrants often with no other criminal record, are too high to make arrests worthwhile.

FIA records show that 67 percent of Pakistanis deportees in 2009 had been apprehended in Europe and 29 percent in the Middle East.<sup>127</sup> FIA officials interviewed also said it was their understanding that 99 percent of the irregular migrants chose the unofficial land and sea routes rather than the official exit ports.<sup>128</sup> They believed the largest bulk of irregular migration went through the land route to Iran, through Balochistan, in view of the greater logistical challenges and hazard posed by the sea route (which is an alternate option for countries of the Persian Gulf only).

Table 16 indicates FIA numbers for deportees “supposed to be victims of human trafficking,”<sup>129</sup> as well as interceptions by Inter-agency Task Force (IATF).<sup>130</sup> It is important to note that data on deportees does not indicate when the people concerned crossed the border – sometimes deportations take place after a lapse of many years, while at other times deportation immediately follows border apprehension.

Table 16: Deportees intercepted and returned

Year	Number of Deportees (1)	Interceptions by IATF (2)	Total Apprehended and Returned (1+2)
2008	18,024	10,703	30,735
2009	13,580	5,601	21,190
2010	16,530	3,434	21,974

Source: FIA, Immigration Wing.

As Table 16 shows, the number of persons deported or intercepted has been about 21,000 per year over the last two years and was higher in 2008 (primarily because of the record number of interceptions). This does not, however, give an indication of the numbers successfully bypassing border controls.

### Interceptions at the borders of Pakistan

Interceptions of irregular migrants at Pakistan’s border with Iran peaked in 2008 and then dropped to half the peak rate in 2009 (see Figure 19). The final number of interceptions recorded for 2010 was 3,434,<sup>131</sup> again significantly lower than the number given in 2008. Comparing this with Frontex’s data shown in Figure 20, it can be seen that Europe too experienced a similar and simultaneous fall in detection numbers.

Other than concluding that any fluctuation in detection capacity can potentially be ruled out as a factor in this variation in numbers, it would be difficult to attempt uncovering reasons for this change. FIA, however, believes that the deteriorating political situation in Balochistan might be a factor in the lower interception rates, by shifting law enforcement priorities.<sup>132</sup> On the other hand, if this apparent correlation with the Frontex data is not merely coincidental, then it is potentially

<sup>127</sup> Presentation made by Mr Zafar Awan, Director Immigration, FIA, in Bali, Indonesia in June 2010 at a meeting of the Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime.

<sup>128</sup> See note 59.

<sup>129</sup> Once again, highlighting the confusion between the terms migrant smuggling and human trafficking.

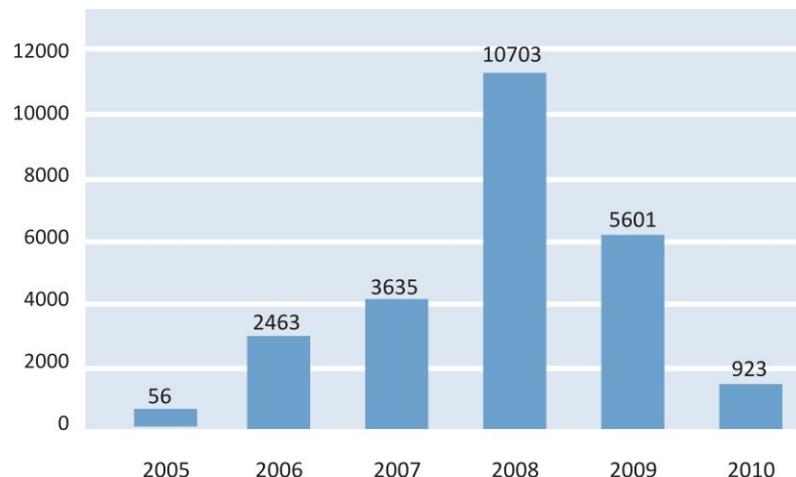
<sup>130</sup> As opposed to people who were deported for overstaying their visas, or because they lost asylum applications.

<sup>131</sup> According to data obtained from FIA for this study.

<sup>132</sup> Interview with two FIA officials, 14 April 2011.

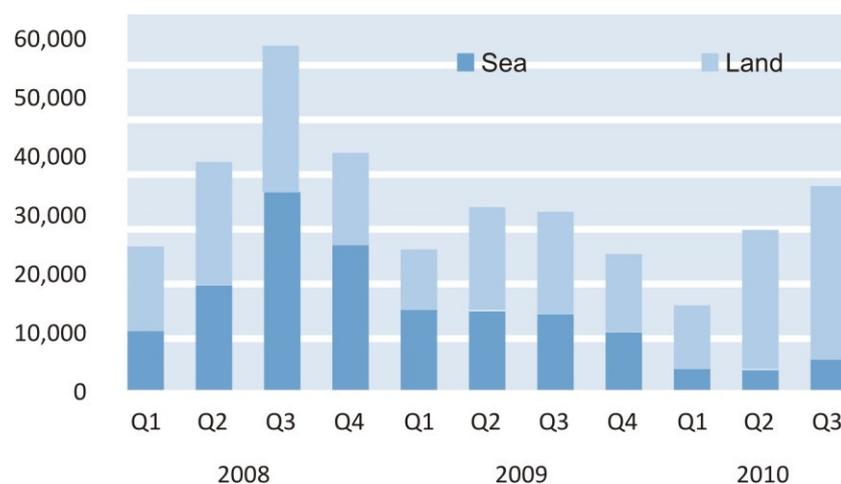
strong evidence that the larger flow of irregular migration across the Pak-Iran border is directed to Europe rather than the Middle East.

Figure 19: Interceptions from the Iran Border (Inter-Agency Task Force)



Source: Presentation made by Mr. Zafar Awan, Director Immigration, FIA, in Bali, Indonesia in June 2010 at a meeting of the Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime. Slide No. 15.

Figure 20: Illegal immigrants detected at EU's external borders by border type.<sup>133</sup>



### Interceptions at non-Pakistani Borders

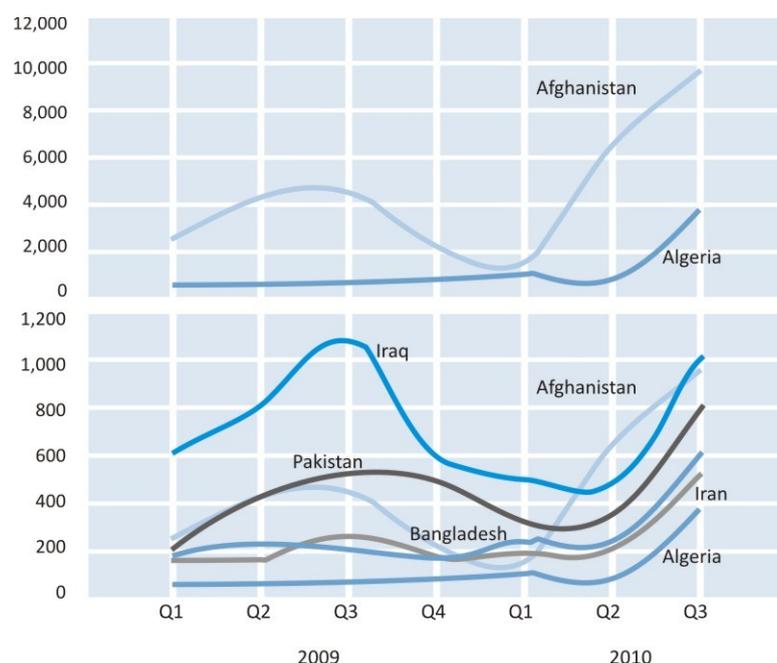
Afghan nationals have consistently represented the largest group of irregular immigrants detected at the Turkey-Greece border in every quarter from Q1 2009 to Q3 2010 (See Figure 21).<sup>134</sup> It is a plausible assumption that a high number of these have transited through Pakistan for onward travel to Iran and Turkey. Pakistanis constituted the sixth highest number of all irregular immigrants detected at EU's external borders in Q3 2010, representing 2.5 percent of the 33,916 detections for the quarter. Iraq contributed more irregular migrants than Pakistan while Iran and Bangladesh contributed less than Pakistan, to the nine most detected national groups of irregular migrants.<sup>135</sup>

<sup>133</sup> European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (Frontex), FRAN quarterly, Issue 3, July-September 2010, Warsaw, January 2011. p. 10.

<sup>134</sup> *Ibid.* p. 13.

<sup>135</sup> *Ibid.* p. 21.

Figure 21: Number of detection of illegal border crossings at the Turkey-Greece border for six nationalities for the period Q1 2009 to Q3 2010<sup>136</sup>



#### 4.2. Trends in human trafficking

Human trafficking is the recruitment, transportation, transfer, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, abduction, fraud, deception, the abuse of power or of a position of vulnerability or the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation.<sup>137</sup> The total global illegal profits produced by trafficked forced labourers were estimated at about US\$ 32 billion in one year.<sup>138</sup> Driving the trade is the demand for commercial sexual exploitation. Seventy-nine percent of all global trafficking is for sexual exploitation.<sup>139</sup> Nationalities of the victims detected in Europe are far more varied than in any other region.<sup>140</sup>

Pakistan is a source, transit, and destination country for men, women, and children trafficked for the purposes of forced labour and sexual exploitation.<sup>141</sup> There is considerable trafficking in women, children, and young men for prostitution through Pakistan but trafficking for forced labour is probably more widespread. Although estimated numbers of internal and external human trafficking victims are lacking, trafficking of people from Pakistan for sexual exploitation, forced labour, forced marriage and use as camel jockeys has been well documented.<sup>142</sup> Large number of Afghan refugees in Pakistan, pockets of poverty, porous borders and presence of organized international smuggling networks make it an opportune operating environment for human traffickers. Children are particularly vulnerable, often accessing smuggling networks in search of work.<sup>143</sup>

<sup>136</sup> See note 30.

<sup>137</sup> Article 3, paragraph (a) of the Protocol to Prevent, Suppress and Punish Trafficking in Persons.

<sup>138</sup> ILO, *A Global Alliance Against Forced Labour*, 2005.

<sup>139</sup> UNODC, *The Globalization of Crime: A Transnational Organized Crime Threat Assessment*, 2010.

<sup>140</sup> Ibid.

<sup>141</sup> US State Department, *Trafficking in Persons Report*, 2011.

<sup>142</sup> FIA officials claim that the trafficking of children as child jockeys has been eliminated with the 2005 UAE ban.

<sup>143</sup> UNICEF, *Situation Analysis of Vulnerable Groups of Children in Three Border Areas*, 2008.

Recent press stories have been particularly insightful. Disabled children and adults are forced to beg in Iran.<sup>144</sup> Girls and women also are sold into forced marriages; in some cases their new husbands move them across Pakistani borders and force them into prostitution in destinations like Qatar and UAE, directly or via Iran or Oman. Some have been reported to end up working in brothels in these transit countries. Cases of foreign nationals (women and children) being brought into Pakistan from Nepal, Bangladesh, Iran, Afghanistan and Central Asia with the intent of using them for commercial sexual exploitation in Pakistan, or onward trafficking to the Middle East, are also known to have occurred.

There are reports that non-state groups kidnap children or coerce parents with fraudulent promises into giving away children as young as 12 to spy, fight, or die as suicide bombers in Pakistan and Afghanistan. These groups may sexually and physically abuse these children and use psychological coercion to convince them that the acts they commit are justified. In addition, there are strong indications that the 2010 floods contributed to increased trafficking in Pakistan.<sup>145</sup>

Although victims from Pakistan are trafficked all over the world, people trafficked from South Asia are most commonly trafficked to the Middle East and Europe. According to available data, Pakistan's border with Iran is the most common area used for illegal migration (including human trafficking) from Pakistan.

Attempts to understand the dynamics of human trafficking globally and especially for Pakistan are constrained by lack of data and existing estimates must be regarded as tentative. The scale of the problem is likely under-stated. As has already been mentioned, FIA does not maintain separate records for the victims of migrant smuggling or those of human trafficking. It is also important to note that FIA officials claim that human trafficking is not a serious or prevalent issue in Pakistan.

#### From migrants to victims of human trafficking

Anecdotal evidence as well as interviews with law enforcement suggests that most of the incidents of illegal border crossings from Pakistan are voluntarily.<sup>146</sup> These migrants, however, may end up being victims of coercion or deception by traffickers, employers or criminals – as irregular migrants they are particularly vulnerable to crime, exploitation and human trafficking. By facilitating irregular migration, migrant smugglers contribute to creating a pool of migrants who are victims of exploitation and human trafficking.

Some migrants might have been deceived from the very onset – while they believed to be have entrusted themselves into the hands of a smuggler, the smuggler was actually a trafficker. From the testimonies of some victims and their families, it has emerged that local smugglers sometimes sell irregular migrants to a foreign smuggler upon arrival in a new country.

Also, irregular migrants may end up working in foreign countries in bonded labor to pay off travel and other costs owed to traffickers. They could also be pressed into forced labor under threat of handing over to immigration authorities in the destination country if they do not comply with the demands of traffickers or their associates in destination countries.

It is when irregular migrants are in a foreign country that they are at their most vulnerable. They are without legal status or local knowledge. They are also not able to speak the local language or have sufficiently fluent English, if any at all. There are reports that foreign smugglers often threaten the victims and blackmail their families into effectively paying a ransom.

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<sup>144</sup> Dawn, *About 300 disabled persons taken to Iran, says DPO*, 18 February, 2011.

<sup>145</sup> US State Department, *Trafficking in Persons Report*, 2011.

<sup>146</sup> Based on interviews with FIA personnel.

Women are not only disproportionately targeted by human traffickers, they are also much more vulnerable to abusive exploitation as voluntarily smuggled migrants. Children suffer similar, if not worse, risks of exploitation. FIA recorded that almost 1 percent of the documented deportees in 2007 were under the age of 18<sup>147</sup>. Some parents are prepared to pay large fees and send their children unaccompanied as irregular migrants.

### 4.3 Modus operandi

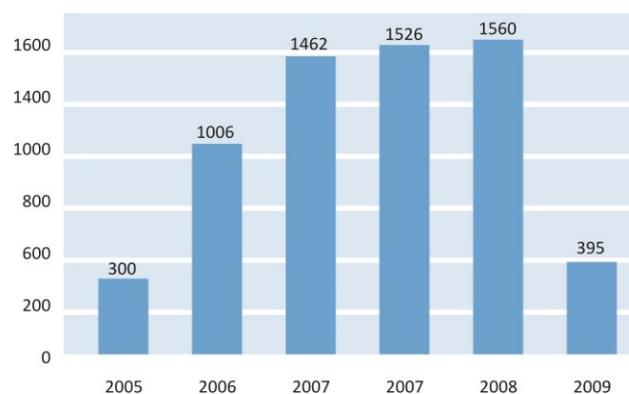
According to the Ministry of Interior's National Plan of Action on Combating Human Trafficking 2005, Pakistani facilitators of migrant smuggling operate extensively throughout the country, including in cities and small towns in northern Punjab and Sindh. Each agent may be able to send only a small number of migrants abroad in a year and usually does not make much money.

Research suggests that individuals seeking to migrate approach a smuggler, commonly known as an agent, who is typically known to the irregular migrant or is recommended by a relative or friend who may be a successful or re-attempting migrant himself. The smuggler is seen as a friendly helper and facilitator and not as a criminal.<sup>148</sup>

Migrant smugglers may not be like human traffickers<sup>149</sup> whose costs are rather low and margins much bigger. A trafficker is more likely to have a criminal record and even involvement in other crimes.<sup>150</sup> Migrant smuggling involves lower risk since the willing migrant is unlikely to identify the smuggler as a criminal. Interception does not necessarily mean a complete loss for the smuggler as the migrant will be deported or released and most likely willing to try again.

Figure 22 gives the number of alleged agents arrested by the FIA over the last five years.

Figure 22: Agents arrested in Pakistan, 2005-2009



Source: Presentation made by Mr. Zafar Awan, Director Immigration, FIA, in Bali, Indonesia in June 2010 at a meeting of the Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime. Slide No. 13.

Information obtained from deportees can help identify and arrest smugglers. But as many deportees are determined to retry and have to rely on the same agents to help them in their subsequent attempts — which could be up to three for a single payment — they are less likely to identify the smugglers. There is also evidence of smugglers using intimidation to stop would-be deportees from sharing any information about them with the authorities.<sup>151</sup>

<sup>147</sup> IRIN, *Pakistan: Trafficking of Children on the Rise*, 21 January 2008. <http://www.irinnews.org/report.aspx?ReportID=76109> (accessed 15 July 2011).

<sup>148</sup> UNODC, *Crime Facilitating Migration from Pakistan and Afghanistan*, 2010.

<sup>149</sup> This view was confirmed in an interview with a police officer with experience of working on cases of human trafficking.

<sup>150</sup> *Ibid.*

<sup>151</sup> The Express Tribune, *Travel agents threaten trapped Pakistanis in Malaysia*, May 05, 2011.

The cost of a multi-stage land route to Western Europe is PKR 500,000 to PKR 800,000 (US\$ 5,880 to US\$ 9,412 approximately) the upper limit being more than 450 percent of the average monthly income in Punjab.<sup>152</sup> A quicker, safer air route may cost PKR 1 million to PKR 1.5 million (US\$ 11,765 to US\$ 17,647 approximately). Gulf destinations are cheaper, and agents charge from PKR 30,000 to PKR 50,000 (US\$ 353 to US\$ 588) for a successful passage.<sup>153</sup>

While there seem to be different methods of payment, anecdotal evidence suggests that an advance payment is generally made to the smuggler before preparations are made. At least half the amount becomes payable immediately upon successful arrival at the destination country. Some smugglers work by taking payments for every stage of the journey completed, while others work on a lump-sum basis. In any event, the family of the potential migrant is responsible for ensuring that at least a part of the payment is made to the smuggler. The family's involvement, and their constant contact with the smuggler, ensures that payments are made as demanded. A study based on interviews with about a hundred irregular migrants from Punjab and KPK reports monies being held as guarantee by a money-changer or hawaladar (operator of the informal money transfer system Hawala/Hundi), and only released to the agent once the migrant successfully reaches his destination.<sup>154</sup>

Interviews with families of migrants suggest that necessary funds are often raised by selling assets such as real estate and jewellery, or by borrowing from friends and extended families. Families usually try to send the eldest son abroad. If successful, they may try and send another son. Remittances from the first son often help fund the chain migration that occurs.

The modus operandi is best explained through Table 17, which illustrates the process of migrant smuggling via a direct route from Pakistan to the UK. The processes involving indirect travel are more complex.

Table 17: The smuggling network, process and payments

Stage 1	Potential migrant makes full payment (up to US\$ 14,000) to a third party who issues a receipt and holds the money until it is confirmed the migrant has arrived at the end destination.
Stage 2	Smuggler obtains a passport and/or visa for the potential migrant from an intermediary country (costing approximately US\$ 2,000, although costs vary according to the nationality and quality of the passport/visa).
Stage 3	Smuggler pays off airport staff responsible for checking passports, approximately US\$ 5,000, although costs vary according to the quality of the passport.
Stage 4	Migrant travels by direct flight to destination, costing approximately US\$ 1,000.
Stage 5	Migrant telephones family upon safe arrival at destination. The third party pays the full deposited amount to smuggler (US\$ 14,000) who makes approximately US\$ 6,000 in profit.

Source: Adapted from Koser, K. (2008). *Why migrant smuggling pays*. *International Migration*, 46(2), 3-26.

<sup>152</sup> According to the Federal Bureau of Statistics' Household Income and Expenditure Survey 2007/08, average annual household income in Punjab was Rs. 175,217.

<sup>153</sup> Interviews with families of migrants suggest that necessary funds are often raised by selling assets such as property and jewelry or by borrowing from friends and extended family. Families usually try and send the eldest son abroad. If successful, they may try and send another son. Remittances from the first son often help fund the "chain migration" that thus occurs.

<sup>154</sup> Koser, K., *Human smuggling: theoretical and empirical perspectives from Pakistan, Afghanistan and the UK*, Bristol: University of Bristol, paper presented at the Leverhulme Conference on Mobility, Ethnicity and Society, 17 March 2006. Quoted in Ahmad, Ali Nobil., *The Labor Market Consequences of Human Smuggling: "Illegal" Employment in London's Migrant Economy*, *Journal of Ethnic and Migration Studies*, Volume 34, No. 6, 2008. pp 853-874.

There is a complete lack of research on the methods of transferring criminal proceeds derived from migrant smuggling in Pakistan. In addition, there is not enough research to determine differentiation within the smuggling services market.

#### 4.4. Proceeds of migrant smuggling and human trafficking

Attempts to estimate the total scale of migrant smuggling and human trafficking remain difficult. It is likely that law enforcement agencies are just skimming the surface. In addition, neither the number of intra-Pakistan interceptions nor the number of migrants deported back to Pakistan provides any usable indication of the number of irregular migrants who successfully reach and stay in the destination country.<sup>155</sup>

Estimating the flow of irregular migrants entering a country requires applying multipliers. In other words, assumptions have to be made on what proportion of the total flow of irregular migrants the apprehended migrants represent in any given year. One method of estimating the multipliers which have been used in studies in Europe is to compare data on apprehensions with data on those seeking political asylum, having arrived in Europe undetected. Although the size of the multiplier varies from study to study, a commonly used multiplier is 1:2, i.e. two migrants are assumed to have successfully crossed the border into Europe for every one migrant apprehended.<sup>156</sup> In other words, out of three irregular migrants, it is assumed that one migrant will be apprehended.

Applying a similar ratio to the FIA data on the number of interceptions, we can estimate the numbers of migrants who have successfully crossed Pakistani borders illegally. We, however, suggest a ratio of 1:5 rather than 1:2, given that a) the interception data available is for the Iran border only, and does not account for possible irregular migration from sea routes (thus the FIA data does not cover all the possible irregular migration movements); and b) border controls at the EU external borders are assumed to be more effective than those in Pakistan which has a largely porous border with Iran, the key exit point. Even this ratio presents a clearly conservative estimate and the scale of migrant smuggling must be bigger.

Assuming that only one was intercepted out of five migrants, we estimate that the total number of potential migrants from Pakistan in 2010 (the latest year for which data is available) was 17,170, or if we round this off, about 20,000.<sup>157</sup>

The proceeds from migrant smuggling are calculated as:

Economic Value = C (Expenditure on arranging migrant smuggling) – G (expenditure on border controls)

The (X-M) or net exports part of the identity does not apply to migrant smuggling as the proceeds from this activity are typically generated domestically, i.e. migrants or their families generally pay agents before leaving or en route, only making the final payment when they reach their destination.

For accurate estimates of amounts paid to agents, we require an estimate of the proportion of irregular migrants going to Europe as opposed to the Gulf. Since we do not have these numbers, we

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<sup>155</sup> There is no reliable data on the numbers of irregular migrants. Data on detection of in-residence irregular migrants is also available but, again, it is not easy to reliably extrapolate it in order to arrive at a reasonable estimate of the number of irregular migrants living in a country. While indirect methods using census, household and/or school enrollment data and comparing it with direct immigration, political asylum application, naturalization and interception and detection data, even customized surveys, are possible to arrive at inferred estimates of number of irregular immigrants living in a country, these methods can be quite complicated and demanding and are beyond the scope of this study.

<sup>156</sup> For an exposition of this methodology see Jandl, Michael., *The Estimation of Illegal Migration in Europe*. Migration Studies, Vol XLI, No. 153.Pp 141-155. March 2004.

<sup>157</sup> We arrive at this by multiplying the number apprehended on the Iran border in 2010 by 2.5 (3434\*5).

assume that the bulk of illegal migration is directed towards Europe and that 70 percent of migrants end up in that continent, as opposed to 30 percent in the Middle East. This assumption also agrees with the numbers of migrants deported from Europe and the Middle East, respectively.<sup>158</sup> For our calculation, we take the mid-points of the range of payments for the two types of destinations.

Thus Economic Value for 2010 = (No of estimated migrants x Amounts paid) – G

Or EV 2010 = {(14,000 x 650,000)+(6000 x 40,000)} – G

Where

Estimated proportion going to Europe	14000 or 70 percent of 20,000
Average cost of passage to Europe	PKR 650,000 (midpoint of the range)
Estimated proportion going to the Gulf	6000 or 30 percent of 20,000
Average cost of passage to Gulf	PKR 40,000 (midpoint of the range)
EV 2010 =	PKR 9,340 million or US\$ 108.6 million

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<sup>158</sup> According to FIA records, 67 percent of the Pakistani deportees had returned from Europe and 29 percent from the Middle East, for example, in 2009.

## 5. ARMS TRAFFICKING

Illegal trade in weapons causes loss of life, facilitates crime and violence, causes damage to private and public property, increases public insecurity and impacts local and foreign investment, among other damaging outcomes.

Firearms differ from other types of illegal goods, like narcotics or timber, in that they are not 'consumable.' A handgun or an assault rifle that is handled carefully could last for an indefinite amount of time, without the need for replenishment.<sup>159</sup> This implies that once large stockpiles of firearms have been created or distributed in a region, there is no urgent need to ensure a continuous flow in the short or medium-term to sustain the needs of their end-users. A large number of weapons which are still in working order in developing countries were distributed there during the Cold War or during periods of conflict, so the need to import new weapons into those regions is low.<sup>160</sup>

Over 600 million small arms and light weapons<sup>161</sup> are estimated to be in circulation worldwide.<sup>162</sup> The majority of the world's small arms are manufactured legally, with possibly as few as one percent of them manufactured illegally. Over 1200 companies in more than 90 countries produce small arms with Government authorization. Asian producers like China, India and Pakistan are among the largest manufacturers.<sup>163</sup> According to the Small Arms Survey 2009, the global authorized firearms trade in 2006 was estimated to be around US\$ 1.58 billion, with the legal but undocumented transactions amounting to another US\$ 100 million.<sup>164</sup> The 2006 report of the International Institute of Asian Studies puts the figure for the legal worldwide trade in small arms at around US\$ 4 billion, noting the lack of transparency in the documentation and reporting of global small arms imports and exports.

Armories of the former Soviet Union and the former Eastern Bloc countries have been described as some of the key sources of arms for illegal trafficking.<sup>165</sup> Many of the countries in this region were left with large stockpiles of arms after the end of the Cold War, and with the gradual decrease in military spending and low levels of government regulation, they became major sources of arms supplies for African civil wars in the 1990s. Ukraine, the Russian Federation, Vietnam, China and Germany, respectively, are the top five countries of the world with the highest ratio of firearms for each active duty soldier.<sup>166</sup> Ukraine, with an estimated 54 firearms for each active duty soldier, clearly has a vast firearms surplus that is particularly vulnerable to exploitation by global trafficking networks.

Incomplete and largely sparse data on arms trafficking and seizures, however, remains a major problem. Remarkably, no international database of firearms seizures exists.

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<sup>159</sup> UNODC, *The Globalization of Crime: A Transnational Organized Crime Threat Assessment*, 2010.

<sup>160</sup> Ibid.

<sup>161</sup> Small arms are defined loosely as "all weapons that a single soldier may carry", and include handguns, automatic and semi-automatic rifles and carbines, sub-machine guns, light machine guns etc.

<sup>162</sup> Florquin, Nicolas., *The Illicit Trade in Small Arms and Light Weapons*, International Institute of Asian Studies, 2006.

<sup>163</sup> Ibid.

<sup>164</sup> Small Arms Survey, *Shadows of war*, Geneva, Switzerland, July 2009.

<sup>165</sup> UNODC, *The Globalization of Crime: A Transnational Organized Crime Threat Assessment*, 2010.

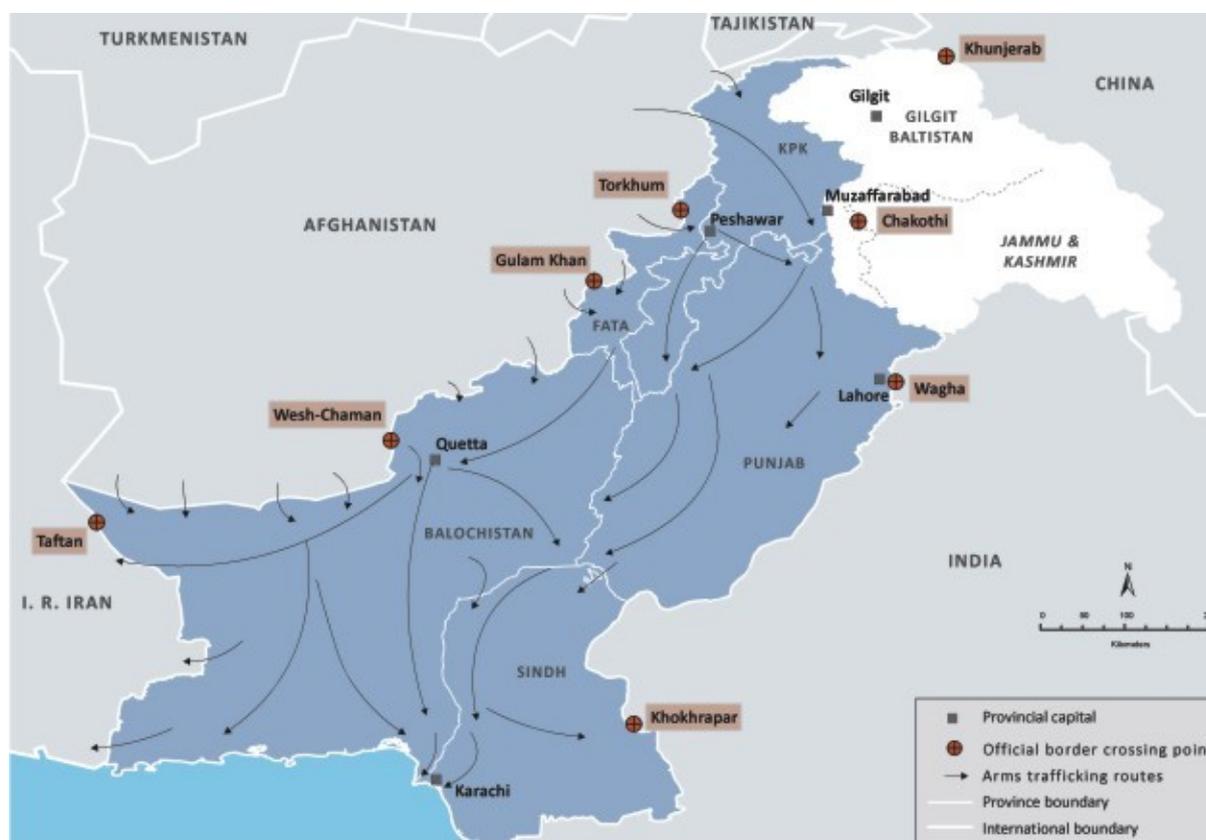
<sup>166</sup> Ibid.

### 5.1. Trends

Small arms proliferated in Pakistan for two reasons. First, arms legally imported or smuggled during the Soviet invasion of Afghanistan between 1979 and 1989, including the estimated US\$ 2 million worth of arms which transited through Pakistan.<sup>167</sup> According to some estimates, 70 percent of these never made it into Afghanistan at all but ended up in Pakistani black markets.

Secondly, the bulk of the trafficked arms and ammunition originates from the unorganized and largely unregulated private ordinance manufacturing enterprises in the towns of Darra Adam Khel and LandiKotal in FATA. Licensed gun owners in Pakistan do not exceed more than 80,000 to 90,000. This small legal market is adequately served by local producers, who are adept at producing exact copies of light weapons manufactured elsewhere. There are, however, reports about the availability of more sophisticated weaponry in Pakistani black markets than the traditional small and light weapons. A recent article reported the seizure of "...rocket launchers, mortar shells, SMG/Kalashnikovs, RPG-7 rockets, 107mm anti-aircraft guns, anti-tank mines, and anti-personnel mines" which arms traffickers had brought in from Afghanistan to Balochistan.<sup>168</sup>

Map 16: Generalized routes for arms trafficking into Pakistan



Source: Discussions with officials of law enforcement agencies

Some data on arms and ammunition seizures obtained from the Frontier Corps Balochistan gives an indication of the extent of the problem (see Table 18).

<sup>167</sup> Khan, R. S., *The Crisis in Pakistan: Facing Serious Threats to Human Security*, NGO Committee on Disarmament, Peace & Security, August 2009.

<sup>168</sup> Kakar. Ghani, *Gun smuggling on the rise in Balochistan*, Central Asia Online, April 2010.

Table 18: Arms and ammunition seizures by FC Balochistan, 2007-2010

Year	Arms (numbers)	Ammunition (numbers)
2007	214	148,401
2008	14	21,482
2009	235	79,005
2010	16	2,345
<b>Total</b>	<b>609</b>	<b>251,233</b>

Source: FC Balochistan, 2010

Apparently, these seizures barely skim the surface of the problem. There are an estimated 100,000 unregistered AK 47 assault rifles in Karachi alone. The figure in KPK is estimated at over 3 million. The town of Darra Adam Khel alone is estimated to have some 2,600 arms manufacturing outlets, with a capacity to produce 100 AK 47 assault rifles per day.<sup>169</sup>

The inter-linkages between arms trafficking and other forms of organized crime are likely to exist, although information about it is scant. Arms and ammunition seizures in Pakistan have often been made along with seizures of drugs. Powerful drug trafficking groups are said to be well-armed, reportedly possessing weaponry ranging from small arms to anti-aircraft weaponry.<sup>170</sup>

## 5.2. Proceeds from illegal trade in arms and ammunition

Only a rough estimate of the proceeds from production and sale of illegal weapons manufactured within Pakistan is possible. So the focus of the study is only on the best-known and most popular weapon in Pakistan, the AK 47. Estimating illegal imports is not possible given the complete absence of data.

The key assumption is that the estimate of production of 100 AK 47s per day in Darra alone is correct. The average price of the rifle has increased in the last three years as the security situation has worsened with the reported price for a low-quality AK 47 can be as low as PKR 25,000 and as high as 250,000 for high-quality imports.<sup>171</sup> If about 36,000 rifles are produced in Pakistan in one year and additional are imported, the annual proceeds from their sale will amount to PKR 4.5 billion or US\$ 52 million at current prices.

The actual scale of arms trafficking could be well in excess of US\$ 52 million due to the undocumented nature of the firearms black market and the lack of accurate, complete and reliable data about the current trends of prices and production.

<sup>169</sup> Data in this paragraph is from a Syndicate Research Paper done by the 80<sup>th</sup> Advanced Course in Public Management in the National Institute of Public Administration, Lahore. See Awan, Farooq A., et. al., *Deweaponization: Problems, Challenges and Viable Strategy*, 2010.

<sup>170</sup> UNODC, *Global Afghan Opium Trade: A Threat Assessment*, 2011.

<sup>171</sup> AFP News, *Kalashnikov Demand Soars with Violence in Pakistan*, SajjadTarakzai, 21 June 2009.



## 6. ILLEGAL TIMBER TRADE

Illegal timber trade is the only crime related to the illegal harvesting of natural resources in this study. Trafficking of environmental resources is a key challenge for some developing countries. Many developing countries lack the capacity to regulate the exploitation of their natural resources. Rather than promoting economic progress, poorly managed natural wealth can become a cause of bad governance, corruption or even violent conflict. The best documented instances of this involve mineral resources, such as oil, diamonds or gold. But biological resources are also vulnerable, and their misappropriation and trafficking is an important form of transnational organized crime.<sup>172</sup>

Illegal timber trade leads to substantial economic losses and environmental damage. Some estimates put the global annual value of the illegal timber trade at US\$ 23 billion causing revenue losses from uncollected logging licenses or taxes.<sup>173</sup> An illegal shipment of timber is based on fraudulent paperwork, which can transmute a protected hardwood into a more mundane variety, or it can render a product originating from a protected area into one from an authorized source. This paperwork can be forged or bought from corrupt officials in timber source countries.

Illegal logging gangs operate throughout the source countries, with varying degrees of assistance from corrupt officials. Brokers are often based in third countries in the region surrounding the source countries. Due to the size of the product, timber is generally transported by sea or by road, entering or exiting countries through official border crossings. Timber of questionable origin may be laundered through re-export or processing within the region.<sup>174</sup>

### 6.1 Trends

The world average for forest cover in a country is around 25 percent but Pakistan has a forest cover of only 4.6 percent. These scarce reserves are further threatened by the world's seventh largest population of 180 million,<sup>175</sup> increasing at an annual rate of 2.2 percent<sup>176</sup>, so are its needs for fuel-wood and grazing areas for livestock. The annual rate of net-deforestation in Pakistan was 2.3 percent in 2005-2010.<sup>177</sup>

20.2 percent of Pakistan's natural forest is classified as prime forest.<sup>178</sup> This is the highest quality forest in terms of biodiversity and density of carbon mass. Prime forests in Pakistan, which incidentally is the same area covered by private plantations. Pakistan's temperate, montane forests are targets of commercial illegal logging, for both fuel-wood and timber.

The bulk of Pakistan's natural forests are concentrated in the north KPK, GB, Azad Jammu and Kashmir (AJK), and northern parts of Punjab bordering KPK and AJK. KPK accounts for 40 percent of Pakistan's forests. The few natural forests in the plains are either riverine or coastal. These are mainly targeted, by those operating illegally, for firewood, whether for commercial or subsistence

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<sup>172</sup> UNODC, *The Globalization of Crime: A Transnational Organized Crime Threat Assessment*, 2010.

<sup>173</sup> Transparency International, *Timber Trafficking and Anti Laundering: An Anti Corruption Approach*, Working Paper, 07/2010. <<http://www.agrisa.co.za/Dokumente/Timber.pdf>> Accessed on 10 August, 2011

<sup>174</sup> UNODC, *The Globalization of Crime: A Transnational Organized Crime Threat Assessment*, 2010.

<sup>175</sup> UNICEF, *State of the World's Children*, 2011.

<sup>176</sup> FAO, *Forest Resource Assessment*, 2010.

<sup>177</sup> Ma, Q., Broadbend, J., Eds., *An overview of forest products statistics in South and Southeast Asia*, Forestry Statistics and Data Collection, FAO, 2002.

<sup>178</sup> FAO, *Forest Resource Assessment*, 2010.

use. Poplars and some other hardwood trees, found in Pakistani forests are suitable for use in construction industry and coal mines in Sind use babul logs for pit-props.

Pakistan's mangrove forests, mainly along about 160 km of the coast near Karachi and Hub, are not just exploited for firewood and construction logs but are also targeted by land mafia groups looking for an opportunity to reclaim land from the coastal swamps in order to create real estate opportunities.<sup>179</sup>

### 6.1.1. Incentives

Timber prices in Pakistani cities are generally higher than the world average.<sup>180</sup> This represents an incentive to enterprising timber contractors to harvest Pakistan's state controlled natural forests beyond sustainable and legal limits. While demand for wood is increasing with a rising population and a growing economy, dwindling reserves of natural forest have seen documented timber production go down in the last few years.

Demand for wood in Pakistan far exceeds the current level of sustainable domestic supplies. Pakistan is able to produce only about a third of its annual total wood and wood product consumption. The amount it imports is, again, about a third of what it produces. The country does not import any fuel-wood and only relatively small amounts of round wood, industrial round wood and sawn wood are imported.

An estimated 43.7 million m<sup>3</sup> wood was consumed in Pakistan in 2007, including 12 million m<sup>3</sup> of timber and 32 million m<sup>3</sup> of fuel wood. Only 14.4 million m<sup>3</sup> of the wood consumed was legal domestic produce.<sup>181</sup> The recorded figure for domestic produce does not include subsistence illegal harvesting from forests and trees. A small proportion, less than 5 million m<sup>3</sup>, of the remaining 29.3 million m<sup>3</sup> was met through imports of wood and wood products. The rest was supplied by timber illegally harvested in the country or smuggled from abroad, mainly from Afghanistan.<sup>182</sup>

As far as fuel-wood is concerned, a large part of the demand is met through private tree plantations and subsistence use of forests. Some fuel needs are met through subsistence use of forests, trees and woody shrubs.

Smuggling from Afghanistan seems to involve high-value species like deodar, followed by ash, blue pine and chir. The preference for high-value timber is due to the better revenue-to-volume ratios they offer. High-quality cedar woods from Afghanistan and domestic sources are also smuggled out of Pakistan, mainly to Dubai. Illegally harvested local timber is mostly consumed domestically. Pakistan formal imports of timber are less than one fifth of local timber production.<sup>183</sup> There is no formal import of fuel wood.

Rural communities in Pakistan and, even more so, in Afghanistan rely on forests where available to sometimes supplement their incomes as well as use them for fodder, fuel-wood and timber for building their homes. Such subsistence use, in the absence of alternative livelihoods, is a real

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<sup>179</sup> Pakistan Fisherfolk Forum. 2011. PFF Struggle for Conservation and Protection of Mangrove Forests. Available on PFF website ([www.pff.org.pk](http://www.pff.org.pk)). There are a number of news reports on a campaign mounted by the PFF, an NGO with headquarters in Karachi, to persuade the government to protect mangrove forests from land developers. See, for example, Express Tribune, *Protect the Mangroves: Fisherfolk Forum Demands Action*, 29 July 2011. See also a video uploaded on Youtube by PFF, on the issue: (<http://www.youtube.com/watch?v=Jzh119jy-z4>).

<sup>180</sup> Ma, Q., Broadbend, J., Eds., *An overview of forest products statistics in South and Southeast Asia*, Forestry Statistics and Data Collection, FAO, 2002.

<sup>181</sup> Statistics for APFSOS II – Office of Inspector General Forests, Ministry of Environment for FAO, APFSOS II Conference Chiang Mai, Thailand, 2007.

<sup>182</sup> UNEP, *Afghanistan – Post Conflict Environmental Assessment*, January 2003.

<sup>183</sup> Federal Bureau of Statistics. Foreign Trade Statistics. Various Issues.

pressure on Pakistan's forests. Due to poverty, many locals are sometimes willing accomplices of the timber mafia and consider working for them as lumberjacks and porters as normal employment opportunities.

Firewood is used by the lower economic classes for cooking and heating as electricity supply has not kept up with demand. Electricity, even where available, is too expensive to use for either purpose, especially in the colder highland areas. Communities living in the vicinity of montane forests usually do not have piped gas due to the difficult terrain and the cost of moving gas into higher altitudes. A program to bring piped natural gas to several towns of AJK, including the capital Muzaffarabad, was developed in response to the concerns that the devastation caused by the 2005 earthquake was exacerbated by the effects of deforestation.

Piped gas, however, is brought to mostly urban consumers for the volumes to justify the investment. Smaller communities en route may benefit but most of them do not automatically get access to piped gas. The same goes for electricity which in any case is too expensive to be used for cooking and heating. Portable Liquid Petroleum Gas (LPG) and fuel oils may be available but are too expensive to be used routinely.

People who live near natural forests in the plains use them for their firewood needs. Many use firewood from planted forests – private or public - or farmland trees, legally bought or illegally extracted. Firewood from private and publicly owned planted forests may be sold to communities further afield. Many people use natural bio-fuels other than wood such as cow pats (caked and dried cow dung) supplemented by shrubs, branches etc.

### 6.1.2 The timber mafia

In the plains of Sindh and Punjab, forests are not considered a significant illegal source of wealth. The interest is more in encroaching upon and misappropriating land used for public forests. The wood in natural forests in plains is often appropriate only for use as firewood, as most of the good-sized sheesham (*Dilbergia Sissoo*) trees have already disappeared.<sup>184</sup> The firewood is seen mainly as covering the cost of clearing forest to free up land for crop cultivation. With forests being a low political priority, the two provincial governments sometimes legally sanction such land re-use.

The situation in KPK, GB and AJK, with more than half of Pakistan's natural forests, is different. The limited foreign aid Pakistan's forests have been able to attract has mostly been spent in KPK (the forest sector aid has been drying up in the last few years). Law enforcement officials suggest that in KPK's Hazara and Malakand divisions and in Dir and Chitral local political elites see forests as a substantially lucrative resource, as do criminal elements. This is also true of GB where there is little in terms of resources other than forests.

Warlords in Afghanistan have been using the timber trade as a source of income since the 1980s.<sup>185</sup> Militant groups are reported to charge fees from lorries moving raw materials and goods through their area of control in south-eastern Afghanistan to Kabul. This includes timber transport and reports suggest each lorry has to pay a tax of up to 20 percent of the value of its load.<sup>186</sup>

North Waziristan reportedly has a long established timber market, and protection money extracted from the trade there may be financing non-state actors based in this tribal agency. Links between

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<sup>184</sup> Sheesham is found in greater numbers in Punjab than in Sindh. It is used mainly for making furniture. In Pakistan, Sheesham trees have been badly affected by blight.

<sup>185</sup> For examples of how this was done, see Yusufzai, R., *Afghanistan: Country Risk Profile 2000*, Swiss Peace Foundation, 2000. Institute for Conflict Resolution, Bern., and Schetter, C., *The 'Bazaar Economy' of Afghanistan: A Comprehensive Approach, in Afghanistan – A Country without a State?*, Noelle-Karimi, et al, Eds., Frankfurt a.M.: IKO Verlag.

<sup>186</sup> Peters, G., *Crime and Insurgency in the Tribal Areas of Afghanistan and Pakistan*, Rassler, D., Ed., United States Military Academy, Combating Terrorism Center, Harmony Program, West Point, New York, 2010. p. 37.

terrorist organizations and illegal timber trade have been identified by an FIA report on an investigation around Agror Tanawal in Mansehra.<sup>187</sup> In Swat, certain non-state actors have reportedly benefited from the illegal timber trade. Between 2007 and 2009, these non-state actors were allegedly responsible for more deforestation than the one in entire decade before that. These groups did not carry out timber smuggling themselves but charged existing smugglers a 10-20 percent tax on every shipment of timber.<sup>188</sup>

### 6.1.3 Structural challenges

Pakistan has a political environment where forests and conservation have a lower priority. This is, to some extent, reflected in the courts' tendency to avoid awarding custodial sentences for illegal logging and smuggling of timber. The backlog of forestry crime cases also receives little attention from the courts. This has resulted in forest areas being converted to agricultural and other uses by provincial governments, especially those of Punjab and Sindh.

Interlocutors stress that financial penalties for forest-related offences are in dire need of an update. They have not changed for many decades while timber prices have increased manifold. The weakness of the Forest Department to implement whatever outdated laws are there is primarily due to its being under-resourced in manpower and equipment.

## 6.2. Timber markets in Afghanistan and links with Pakistan

The large market and higher consumer prices in Pakistan ensure that a lot of timber from eastern Afghanistan is smuggled into Pakistan. According to one study: "For most of the last three decades, all Afghan traders (apart from some gem traders), including transit trade smugglers, carpet manufacturers, arms and timber smugglers have relied on Pakistani markets, roads and financial institutions."<sup>189</sup> Pakistan timber smugglers have also moved into Afghanistan, sometimes with their own mechanized equipment and skilled lumberjacks.<sup>190</sup>

The Afghan Government banned logging in 2006 but illegal cutting of cedar and other softwood timber continued in the forest-rich eastern provinces, with timber being sent into Pakistan's Mohmand, Bajaur, Khyber and Kurram agencies of FATA. The usual route is Peshawar-Ali Masjid-Tirah Bazar, which allows smugglers to avoid the Torkham check post. Perhaps in recognition of this illegal trade, and also as a means to cut down illegal logging in Pakistan, in 2007 the Government of Pakistan removed tariffs on the import of sawn and rough wood. The import of sheets for veneering, parquet flooring and other more sophisticated forms of finished wood products are subject to duty of 15 to 20 percent.<sup>191</sup>

The volume of the trade is not easily assessed, although a number of media reports have suggested that it is substantial. A news story in The Washington Post reported in September 2003 that a road to Nangarhar province on the Pakistan border was "bumper-to-bumper with timber-laden 16-wheelers."<sup>192</sup> A UNEP study on Afghanistan published in 2003 stated, "There is currently a major

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<sup>187</sup> The News, *New Status of Kala Dhaka to Curb Timber Mafia's Activities*, 31 January 2011.

<sup>188</sup> The News, *Over 70% Forests Cut When Taliban Controlled Malakand*, 05 February 2010.

<sup>189</sup> Lister, S., and Karaev, Z., *Understanding Markets in Afghanistan: A Case Study of the Market in Construction Materials*, Afghanistan Research and Evaluation Unit, Kabul. 2004. p. 20.

<sup>190</sup> Shahbaz, B., *Dilemmas in Participatory Forest Management in Northwest Pakistan: A Livelihoods Perspective*, Müller-Böker, U. Ed., Schriftenreihe Humangeographie Human Geography Series, University of Zurich, Volume 25, Islamabad. 2009. p. 72.

<sup>191</sup> Tariff schedules are downloadable from the website of the Federal Board of Revenue, Government of Pakistan (<[www.fbr.gov.pk](http://www.fbr.gov.pk)>) last accessed for this study on 25 May 2011.

<sup>192</sup> Gannon, Kathy, *Afghans See U.S.-Backed Warlords as Enemy*, The Washington Post, September 7, 2003.

illegal trade in cedar timber, mainly with Pakistan.”<sup>193</sup> A recent Wildlife Conservation Society (WCS) survey of the timber market in Kabul found virtually no trade (0.2 percent) in cedar woods.<sup>194</sup> This may suggest that the cedar trade, especially from the north-eastern provinces, is captured by Pakistan, with its more lucrative and larger markets. Despite a nominal ban on logging, timber smuggling from eastern Afghanistan seems to continue. In an indication that there is no decrease in supplies from Afghanistan, timber prices in Pakistan have not shown any sharp increase one would expect if the supplies had dwindled.

Pakistan’s legal export of timber mainly consists of poplars from irrigated forest plantations in Pakistan.<sup>195</sup> Recently, the price of poplar logs used for construction shot up in Kabul, driving smuggling from Pakistan. In 2010, Pakistan’s Federal Board of Revenue (FBR) legalized the export after imposing a nominal tax.<sup>196</sup>

### 6.3. Illegal re-exports

In the earlier part of the last decade, the Government of Pakistan banned timber exports from FATA to the rest of the country to prevent over-exploitation of local timber and the sale of smuggled Afghan timber being marketed as having originated from the tribal agencies. Despite this ban, timber smuggling continued unabated along the poorly patrolled routes. A reverse flow also takes place: timber from Dir and Chitral is often smuggled to Afghanistan, only to re-enter Pakistan as Afghan timber. This allows smugglers to circumvent the laws in Pakistan where only dead or wind-felled and other selected trees, visibly marked by the Forest Department, may be harvested by those awarded legal permits. Using local roads requires negotiating check posts manned by Forest Department or other law enforcement staff. Successful passage through a check post is only possible through fraudulent paperwork or the collusion of the personnel there. All these hurdles mean that the smugglers take the wood harvested in Pakistan to Afghanistan to export it back legally.

The smuggling of timber from Afghanistan to Pakistan is in violation of Afghan law, but does not represent a loss to the Pakistani exchequer post 2007, as the Government of Pakistan has made timber imports duty free. The main danger of illegal logging, in both Pakistan and Afghanistan, is that profits from the activity can benefit non-state actors.

### 6.4. Proceeds from illegal timber trade

The value of illegal timber trade from illegal tree cutting in Pakistan was estimated in a recent study to be PKR 835 million (US\$ 9.82 million approximately) annually. This was based on the average annual recorded illegal cutting of about 50,000 m<sup>3</sup> and a price of PKR 16,700 (US\$ 196.5 approximately) per m<sup>3</sup> (average timber price in 2005/06).<sup>197</sup>

Estimates of the extent of the logging in Afghanistan are hard to come by. Recent literature on illegal timber trade between Pakistan and Afghanistan gives no indication of the magnitude of the trade. A

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<sup>193</sup> United Nations Environmental Program (UNEP). *Afghanistan: Post-Conflict Environmental Assessment*, Nairobi, 2003. p. 19.

<sup>194</sup> Wingard, J., et al., 2008. *Timber Trade Survey: Final Report, Eastern Forests Program*, Wildlife Conservation Society, Kabul. p. 26.

<sup>195</sup> The WCS survey referenced earlier found 2 percent of the wood, mainly poplars, in Kabul’s timber markets to be of Pakistani origin. Pakistani poplars accounted for 5.5 percent of all poplar in Afghan markets.

<sup>196</sup> Daily Mashriq, *FBR Allows Export of Poplar Trees to Afghanistan*, Peshawar, 12 June 2010.

<sup>197</sup> See Inter-cooperation: Pak-Swiss Integrated Natural Resource Management Project. *Study on Timber Harvesting Ban in NWFP*. Swiss Development Cooperation, April 2010.

study from the late 1990s, however, estimated the quantity of Afghan timber entering Balochistan alone to be 1,752,000 tons, worth PKR 1.17 billion (US\$ 13.77 million approximately).<sup>198</sup>

Based on this information, the illegal timber trade, consisting of illegal logging in Pakistan and sale of illegally logged timber from Afghanistan into Pakistan, is estimated around PKR 2 billion, or about US\$ 23 million.

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<sup>198</sup> Sharif M, Umar Farooq and Arshed Bashir., *Illegal Trade of Pakistan with Afghanistan and Iran through Balochistan: Size, Balance and Loss to the Public Exchequer*. International Journal of Agriculture and Biology, 2000. 1560–8530/2000/02–3–199–203.

## 7. KIDNAPPING FOR RANSOM

Recent years have witnessed the increasing involvement of organized crime groups in kidnapping for ransom. At the end of 2010, an estimated US\$ 1.5 billion had been paid out in ransom to kidnapers around the world. Hostage-taking used to be considered a South American problem – until 2004, 65 percent of all kidnapping cases worldwide were from that region. In 2009, the figure fell to 37 percent and kidnapping for ransom expanded in, aside from Pakistan, in the Philippines, Afghanistan, Nigeria, the Gulf of Guinea, Mexico, Sudan, the Democratic Republic of Congo, north-west Africa, Iraq, Nepal, Haiti and Yemen.<sup>199</sup>

The actual sums involved in kidnapping for ransom must be larger than estimated, given the murkiness of the business. Part of the reason why the data quality is weak could be that there are no international bodies to monitor and study people taken hostage.

### 7.1. Trends

Anecdotal accounts and police data from all major cities of Pakistan indicate that cases of kidnapping for ransom have been increasing since 2007.<sup>200</sup> Part of the reason for this is that while kidnapping for ransom has always been lucrative, the reported entry of non-state actors into the business has made it even more profitable. Official data does not reflect the extent of the problem, primarily because many cases go unreported for fear of endangering the victim. Table 19 gives the existing police estimates.

Table 19: Cases of kidnapping for ransom

	2006	2007	2008	2009	2010
Number of Cases					
Islamabad	4	9	20	19	15
GilgitBaltistan	0	0	1	0	0
AJK	2	1	6	1	5
Punjab	135	177	213	174	149
Sindh	86	147	217	198	136
KPK	48	73	129	150	141
Balochistan	12	14	40	38	31
<b>Total</b>	<b>287</b>	<b>421</b>	<b>626</b>	<b>580</b>	<b>477</b>

Source: National Police Bureau, 2011.

The organized gangs involved in kidnapping for ransom cases often have a threefold set-up. One team is responsible for the actual kidnapping and handing the victim over to a middleman. The middleman then transfers the hostage to a third party which keeps him until a successful bargain is made. The hostage is usually kept in an area, such as Pakistan's tribal region, where police have weaker control.

While such organized gangs play a large role in Pakistan's kidnapping industry, they are not the only ones involved. Many smaller gangs or petty criminals are also active, especially in small rural communities or within the clan-based social network of Punjab. The victims are usually known, or

<sup>199</sup> EsmeMcAvoy and David Randall, *The £1 billion hostage trade*, The Independent, Accessed on 16 August 2011 at <<http://www.independent.co.uk/news/world/politics/the-1-billion-hostage-trade-2108947.html>>.

<sup>200</sup> Karachi has a long history of kidnappings for ransom, with cases being tracked from the 1990s. The upsurge in other major cities is more recent.

even related, to the culprits. Reports suggest that the groups involved in the crime are multi-ethnic - and although exclusively Pashtun groups allegedly have members from Afghanistan.

The recent involvement of non-state actors in kidnapping for ransom, especially in KPK and FATA, has increased the profitability of the business. Fear of these groups among the local population has led to an increase in the average ransom demanded, as they are perceived as more likely to kill the hostage than negotiate the ransom. Criminal networks have also been known to sell their captives to these non-state actors who can extract a higher ransom. There have been a number of reports of victims being kidnapped from different provinces and then transported to FATA and kept there until negotiations were finalized.

Kidnapping carries a penalty of up to life in jail and kidnapping for ransom can carry the death penalty, which is often enforced. See Annex II. The role of the police in investigating and prosecuting kidnapping cases, however, has been weak. In the few cases where convictions take place, it is some low-level member of the gang who gets punished. Another reason for the increase in kidnapping cases is that the worsening security situation has pulled personnel and resources away from standard policing functions like preventing and investigating crime and apprehending criminals.<sup>201</sup>

### KPK and FATA

Kidnapping for ransom is reportedly one of the sources of income for non-state groups in KPK and FATA. According to a senior police officer quoted in a news report, there is a Taliban shura (committee) dealing specifically with kidnapping operations.<sup>202</sup> Fear of these groups among the local population has led to an increase in the average ransom demanded, as they are perceived as more likely to kill the hostage, or interlocutors, than to negotiate over the ransom payment. Videos showing the beheading of captives, after branding them spies or infidels, have brought home the gruesomeness of the crime and cemented people's fear of the groups involved.

In the past, despite the relative difficulties for law enforcement agencies to apprehend criminals and rescue abductees in FATA, local authorities were able to conduct successful operations or negotiate the release of victims through their formal and informal relations with the tribal leaders.

The emergence of non-state actors in recent years has disrupted the traditional power centers of tribal society as community leaders and tribal elders have been targeted and systematically eliminated and sidelined. In many cases, the people who have replaced are more compliant towards the non-state actors. Recent military operations have weakened this trend but policing remains a challenge. Police have been further limited by inaccessibility to areas where military operations are ongoing. These include Bajaur, South Waziristan, Orakzai and North Waziristan agencies. In addition to these limitations, the police have low capacity to handle the kidnapping problem in its current scale and nature.

The victims of kidnapping come from the business community, prominent members of the religious minorities, officials of governmental agencies like WAPDA, PTCL and NHA, employees of private mobile companies, medical representatives of pharmaceutical companies, doctors, employees of NGOs and foreign aid agencies as well as foreign tourists. The fact that the outcome of non-payment of ransom is now clearer than it used to be has had the effect of increasing the profitability of kidnapping.

### Punjab

Kidnapping networks (both non-state and professional) have spread into Punjab. According to police data, the province had the highest number of kidnappings for ransom in the country in 2010. Targets

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<sup>201</sup> Dawn, *Overprotected' families consume police resources*, 13 May 2011.

<sup>202</sup> Dawn, *Kidnapping for Ransom, A Boon for Militants*, 26 January 2011.

have primarily been the members of the business community, entrepreneurs and their family members. At a recent convention of the All Pakistan Traders Association, some of the speakers from Punjab mentioned kidnapping for ransom as a major issue facing the community.<sup>203</sup> Children have been targeted by kidnappers as high ransom amounts can be demanded and expected to be paid quickly for them. Minorities, specifically the Ahmadis, are also vulnerable to kidnapping.<sup>204</sup>

While most kidnappings in Punjab are likely to be led by organized gangs, there are indications of the involvement of non-state actors.<sup>205</sup> The ransom money solicited normally exceeds PKR 10 million (US\$ 117,647) although it can be anywhere between PKR 0.2 million and PKR 20 million (US\$ 2,350 and US\$ 235,000).

The level of arrests and prosecution remains low. The Office of the Inspector General of Police of Punjab reports that only 15 percent of the accused were arrested and only 39 persons were convicted for the crime in the province in 2010.

### Sindh and Karachi

Kidnapping for ransom cases in Sindh started in 1980s. The targets were primarily the members of the business community -- specifically Hindu traders. There was a decrease in the crime by the late 1990s but it has re-emerged since then. Law enforcement officials suggest that the kidnappers are bandits, allegedly backed by influential landlords (who may get involved in the release after the payment of ransom). These kidnappers are from within Sindh as well as from Balochistan. The members of Hindu community remain a prime target because of their relative wealth as traders and businessmen and weak political and tribal backing. The Hindu community is also targeted in Balochistan for kidnapping.

The situation in Karachi, the capital of Sindh is different as far as the groups involved in the crime are concerned. As in the rest of Sindh, kidnapping for ransom began in Karachi in 1980s when the city began to experience political and ethnic violence. Cases peaked in 1990 which is when the Citizens Police Liaison Committee (CPLC) was formed (see Figure 23).

A couple of Pashtun gangs, known for abducting children in the past from Karachi's Pashtun areas, are now also active in other areas. There are cases of victims ending up in FATA where they are released upon payment of ransom or other considerations. Baloch gangs tend to transport hostages to locations in Balochistan, for instance, Pasni. There are also reports of victims ending up in interior Sindh.

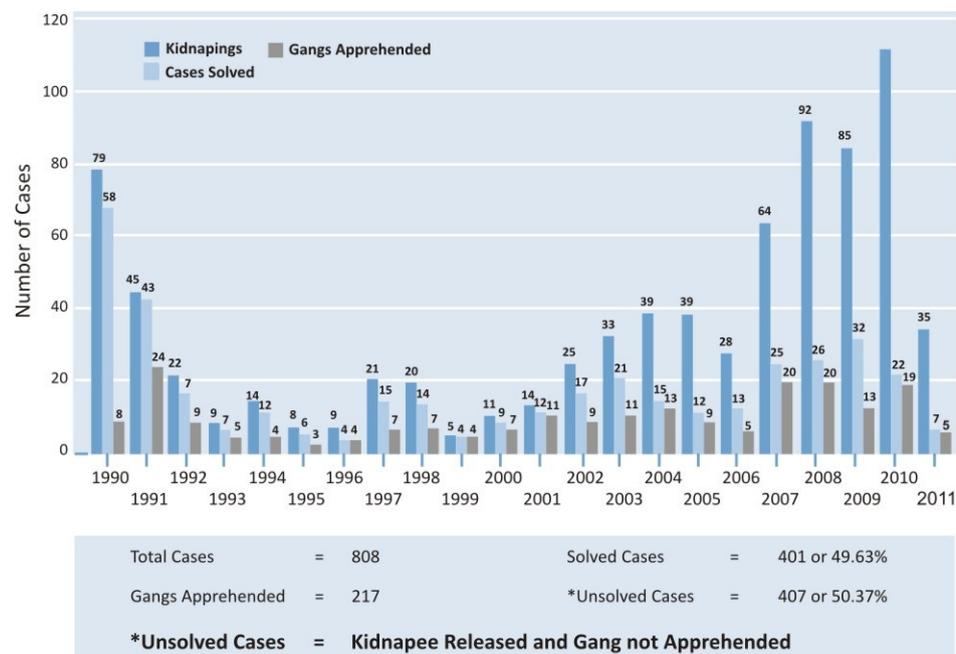
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<sup>203</sup> Speeches made at the convention of the All Pakistan Anjuman-e-Tajirani in Lahore in February 2011. See *The Nation, Traders Warn of Protest Over Law and Order*, 5 February 2011.

<sup>204</sup> Ahmadis are considered a heretical sect by most mainstream religious denominations and the state declared them non-Muslims through an amendment in the Constitution in 1974.

<sup>205</sup> Dawn, *Murky World of Dealing With Militants*, April 26, 2011. On this occasion a police officer and a land revenue officer were victims of kidnapping by a member of the Punjabi Taliban.

Figure 23: Kidnapping for ransom data for Karachi, January 1990-April 2011



Source: CPLC, Karachi

## Balochistan

Kidnapping for ransom is a recent phenomenon in Balochistan. In the past, most kidnapping cases were motivated by tribal rivalries and would end in the murder of the kidnapped person. In the last few years, kidnapping has become a lucrative and widespread business. There are hints of patronage by influential persons, as many kidnapped persons have been known to be kept in areas close to or even within Quetta. Recently transporters blocked the national highway to protest the crime.<sup>206</sup>

Targets of kidnapping are similar to those across the country. In addition to the Hindu community, the relatively wealthy Pashtun traders and settlers<sup>207</sup> have also been targeted. Famous kidnapping incidents include the abduction of former Balochistan minister Faridoun Abadan in 2002 and his wife in March 2011. She is a businesswoman and the couple are well-known residents of Quetta. They belong to the Zoroastrian minority.<sup>208</sup> In a recent incident, some judges were also kidnapped.<sup>209</sup>

The ethnic affiliations of the people residing in border districts of Balochistan and Sindh have facilitated inter-provincial kidnapping operations and patronage. Many Sindhi gangs operate in Balochistan and vice versa.

There are reports that the groups involved in the crime are multi-ethnic although exclusively Pashtun groups allegedly have Afghan and Kandahari members. There have been incidences where non-state actors have been involved in kidnapping for ransom but it is unclear how widespread this is.<sup>210</sup> In 2009, a senior UN official, who was an American national, was abducted in Quetta by the Balochistan Liberation United Front (BLUF), a separatist group unknown till then.

<sup>206</sup> Bloach Hal News, *Transporters Block National Highway Against Kidnappings For Ransom*, 16 April 2011.

<sup>207</sup> Ethnically Punjabi families settled in Balochistan.

<sup>208</sup> Dawn, *Missing Minister's Wife Kidnapped in Quetta*, 09 March 2011.

<sup>209</sup> Daily Times, *Two Judges Kidnapped in Balochistan*, 28 February 2011.

<sup>210</sup> They normally take 'security money', even, allegedly, from sitting ministers of the government.

Baluchistan's law and order situation is widely perceived to be deteriorating with an increasing provincial crime rate. This has stretched the capacities of law enforcement personnel who themselves are targeted by these groups. Resources available to these agencies are insufficient and low personnel numbers make it impossible to properly secure the largest province in Pakistan.<sup>211</sup>

## 7.2. Proceeds of kidnapping

In the absence of reliable data on ransoms paid and under-reporting of the crime itself, it is difficult to calculate its proceeds. Nevertheless, this study makes an attempt for a conservative estimate based on the limited data available.

The key assumption is that the number of about 500 kidnappings per year for ransom (as recorded by the police) is realistic. It is further deduced that 90 percent of these kidnappings are for random and that victims are released after the payment of small amounts of ransom (less than PKR 500,000 (US\$ 5,880)). This study assumes that the average ransom paid is PKR 300,000 (US\$ 3,530).<sup>212</sup> Based on these assumptions, the proceeds of random kidnappings in any given year are:

Economic value of random kidnappings = PKR 300,000 X 450 = PKR 135 million or US\$ 1.6 million.

At least 1 percent of kidnappings are assumed to be of high profile victims and richer businessmen for whom, anecdotal evidence suggests, ransom amounts paid are in excess of PKR 10 million. Assuming an average ransom amount of PKR 15 million (which is significantly lower than some of the amounts being speculated about in the press and in conversations with law enforcement personnel), proceeds of kidnapping from high value targets are:

Economic value of high-value kidnappings = PKR 15,000,000 X 50 = PKR 750 million or US\$ 8.5 million.

In total, therefore, the estimate of proceeds from kidnapping, when considered conservatively, amounts to PKR 885 million or just over US\$ 10 million.

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<sup>211</sup> UNODC, *The Global Afghan Opium Trade: A Threat Assessment*, 2011.

<sup>212</sup> Estimate of 90 percent random based on an interview with CPLC.



## 8. THE MONEY TRAIL

Illegal trade in goods and persons results in a flow of money that is injected into the world's formal economies every year through money-laundering and the acquisition of legal assets. It also funds the activities of international organized crime groups and finances insurgent groups active in conflict zones throughout the world.

### Box 6: The proceeds of crime and insurgency

UNODC Executive Director Yury Fedotov commented on global criminal market at a symposium on terrorism in Vienna on 16-17 March 2011: "In many instances, criminal profits support terrorist groups. Globalization has turned out to be a double-edged sword. Open borders, open markets and increased ease of travel and communication have benefited both terrorists and criminals. Thanks to advances in technology, communication, finance and transport, loose networks of terrorists and organized criminal groups that operate internationally can easily form links with each other. By pooling their resources and expertise, they can significantly increase their capacity to do harm."

An analysis carried out by UNODC suggests that global criminal proceeds were likely to be some 3.6 percent of global GDP or about US\$ 2.1 trillion in 2009. The best estimate for the money available for laundering through the financial system was equivalent to 2.7 percent of global GDP or US\$ 1.6 trillion in 2009.<sup>213</sup> Expressed as a proportion of national GDP, all crime proceeds appear to be generally higher in developing countries. The 'interception rate' at the global level for the illegal money remains low, with much less than 1 percent (probably around 0.2 percent) of the proceeds of crime laundered via the financial system seized and frozen.<sup>214</sup>

### 8.1. Informal Value Transfer System

The Informal Value Transfer System (IVTS),<sup>215</sup> commonly dubbed as Hawala/Hundi, is heavily used by Pakistanis to send and receive money to and from other countries.<sup>216</sup> Primary international connections of Pakistani IVTS are Afghanistan, UAE, Europe (especially the UK) and China. Although Pakistan's formal financial sector has been developing in recent years, the advantages of informal systems are multiple. In general, details of transactions are less accessible to authorities, the systems are highly responsive to the needs of retail users, they charge competitive fees and rely on personal trust and social sanctions rather than commercial logic or legal frameworks. Although the majority of transactions involve remittances, these systems are also prone to misuse for criminal trading, for transferring the proceeds of crime and for financing terrorism.

This system is operated by informal money changers with international franchises, and supported by a domestic payment system with subscription from trading community, including gold traders, travel agents, transporters etc. For hard cash transfer, the exit points are land routes and air and sea ports. Individuals are allowed to take a maximum of US\$ 10,000 out of Pakistan.<sup>217</sup> There is no data

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<sup>213</sup> The largest income for transnational organized crime comes from illicit drugs which account for some 20 percent of all crime proceeds and about half of transnational organized crime proceeds.

<sup>214</sup> UNODC, *Estimating Illicit Financial Flows Resulting from Drug Trafficking and other Transnational Organized Crimes*, 2011.

<sup>215</sup> Nikos P., *Informal Value Transfer Systems and Criminal Organizations; a Study into so-called Underground Banking Networks*, Ministry of Justice, Netherlands, 1999.

<sup>216</sup> Hawala/Hundi are two interchangeable terms used to describe an IVTS method. For the purposes of this study, the two concepts are essentially the same: facilitating the transfer of value over distance without the immediate, or in some cases ultimate, need for cash. In this study, the term Hawala is used.

<sup>217</sup> Currently, the Government of Pakistan is considering a proposal to make it mandatory to declare the amount of currency being carried.

available that specifically provides information regarding the seizure of cash destined to, or originating from, Afghanistan.

Under the Foreign Exchange Regulation Act 1947, all international IVTS is illegal, not least because the negative impacts of IVTS include a loss of revenue, corruption and unregulated capital flight. But, according to the State Bank of Pakistan (SBP), Hawala system has predominantly legitimate uses. It is serving a large unbanked population in the country (85 percent of the total population) by offering a money transfer system. There are no estimates of the size of money flows through Hawala system.

SBP is actively pursuing a Financial Inclusion Program to help phase out the informal Hawala system through its competitor formal financial services. Once adequate process checks have been introduced and all foreign exchange agents registered, the criminal use of Hawala system can be minimized. SBP started the licensing of foreign exchange agents in Pakistan in 2002. This is preferable to a clamp down action on informal money exchange agents, which is likely to have a high economic opportunity cost as valuable foreign exchange arriving in the form of worker remittances through Hawala system will be compromised. Additionally, the legal frameworks in origin countries need to be strengthened to ensure that the recipient of Hawala payments in Pakistan is a licensed money exchange agent.

#### **Box 7: Peshawar's Chowk Yadgaar Currency Exchange / Money Transfer Market**

According to the information provided by one of the law enforcement agencies, Chowk Yadgaar locality in Peshawar provides the largest 'informal money transfer' facility in Asia as it services transfers primarily related to migrant workers' remittances and the Afghan Transit Trade. There are approximately 400 shops in Chowk Yadgaar, with only four of them registered. All the rest operate informally. The total daily transaction volume of the illegal Chowk Yadgaar currency market is estimated at about Rs 1 billion or US\$ 12 million. Foreign exchange stocks, including dollars and euros, for currency conversion are primarily transported by carriers across borders based on demand.

Chowk Yadgaar money changers operate franchises in multiple (4-5) locations, typically in FATA, Dubai, Oman and Saudi Arabia. The transactions are completed by simply balancing the books of these franchises. 'Chamak', the international informal currency conversion rate, is used to trade foreign currency for completing transactions.

Recently, the President of the Chowk Yadgaar Money Changers Association was arrested on two charges of operating an unlicensed foreign exchange business and illegally transferring money to international locations. The money changers have expressed a willingness to register themselves with SBP.

SBP estimates that formal overseas workers' remittances and compensation of employees to Pakistan reached US\$ 11.2 billion in FY 2011, up from US\$ 8.9 billion in FY 2010.<sup>218</sup> This does not necessarily imply an increase in overall formal and informal remittances. A combination of law enforcement and efforts to improve the formal banking system could have prompted emigrants to remit through formal channels instead of Hawala. Tables 20 and 21 demonstrate that the number of Hawala cases and convictions as reported by FIA doubled between 2009 and 2010. It is, however, not possible to extrapolate further trends and patterns with this level of information.

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<sup>218</sup> <<http://www.sbp.org.pk/ecodata/index2.asp>>, Home Remittances (Archive) August 10, 2011.

Table 20: Number of Hawala-related cases in 2009 and 2010

Zone	2009	2010
Punjab	0	0
Sindh	0	0
Islamabad	0	26
KPK	23	29
Balochistan	1	1
Total	24	46

Source: FIA, 2011

Table 21: Number of Hawala-related convictions in 2009 and 2010, FIA

Zone	2009	2010
Punjab	0	0
Sindh	0	0
Islamabad	0	14
KPK	14	18
Balochistan	0	0
Total	14	32

Source: FIA, 2011

Experts are divided on the extent to which organized criminals use the Hawala network and the lack of information makes it difficult to make a definitive statement either way. Some believe it is an important conduit for sustaining criminal networks by enabling the transfer of the proceeds of crime whereas interviewed officials believe that organized criminals do not risk using public service platforms, even if they are informal. SBP corroborates this by stating, for example, that no cases of money transferred through Hawala have been related to illegal production and trafficking of opiates from Afghanistan. While it is likely that criminal groups do exploit the Hawala network, there is little reason to believe that this is their necessary or preferred method, or that Hawala is more vulnerable to abuse than the regulated sector.

When considering the vulnerability of Hawala to criminal activity, it is worth recalling that formal institutions are also integral to many organized criminal networks. Tellingly, the vast majority of Hawala agents have engaged in licensing arrangements to satisfy SBP and invariably manage parts of their business through formal financial institutions.

One law enforcement official mentioned some indicators by which Hawala operations using formal financial institutions can be recognized: periodical bulk cash deposits followed by overseas transfers; a single name/business linked to multiple accounts, with multiple deposits into one single name/business; high volume of incoming/outgoing wire transfers from one individual/business to several locations.

In some cases described in consultations with UNODC, Hawala traders mixed legal trade with illegal funds – indeed this has been a primary strategy to obscure the source of funds. A related strategy is to run registered businesses, thereby creating opportunities to generate a legitimate paper trail that can prevent or confuse law enforcement scrutiny.

Criminal networks also use an external financial agent who provides services to many such customers.

The Government's abilities to analyze the extent of the criminal use of Hawala network are presently low. Detecting criminal activity in formal financial systems subject to electronic monitoring is difficult

enough; detection with little access to the transfers themselves is even more of a challenge.<sup>219</sup> Hand-written ledgers, particularly in isolated parts of Pakistan, are not very accessible to regulators and law enforcement officials. Information-collection in informal systems requires greater investment in human sources.<sup>220</sup> The law enforcement officials also, sometimes require some form of cooperation from Hawala agents to convict the 'proper' criminals, raises the question of bargaining with the financial agent.<sup>221</sup>

## 8.2. Money laundering

Once criminal money has entered global and financial markets, it becomes much harder to trace its origins. The amount of money likely laundered annually in recent years is more than one trillion dollars. In 1998, IMF estimated this figure to be the equivalent of 2-5 percent of global GDP, and UNODC considers that such a range remains plausible today. Other organizations have also tried to assess the extent of national and transnational organized crime and the percentage of laundered funds that end up in international financial markets. It, however, difficult to arrive at internationally accepted estimates, since all the figures rely on incomplete or inaccurate data.<sup>222</sup>

All the crimes assessed in this study generate financial proceeds both locally and internationally, which circulated in both the illegal and formal economic channels for savings, investments and consumption purposes. See Section 9.1 for a detailed impact of the illegal economy. The assumption is that there is a strong incentive for converting illegal 'black' into legal 'white' by layering it into formal financing channels. Ultimately this translates into the ownership of company stocks, bonds, real estate and other investment grade assets. Once the money is laundered, it is very difficult to trace its origins – the global interception rate is less than 1 percent.<sup>223</sup> Bringing the money into the financial sector has multiple purposes, including:

- 1) Security of funds
- 2) Obscurity
- 3) Savings
- 4) Sharing of profits
- 5) Transfer of funds abroad

The common mechanism for layering of funds is by creating 'benami accounts' or 'ostensible accounts' which are then inter-mingled with 'white' money. The funds are consolidated by making investments and declared for filing of tax returns. This completes the process of money laundering.

The most recent step taken by Pakistan in combating money laundering is the enactment and enforcement of the Anti-Money Laundering (AML) Act 2010. The Act defines the list of predicate offences, and extends its jurisdiction over Commercial Banks, DFIs, EXIM companies, NBFCs,

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<sup>219</sup> It is also likely that criminalised transfers and agents will be the last to subject themselves to regulatory efforts (such as the licensing of agents being attempted in Afghanistan). Nevertheless, these efforts may still increase the intelligence footprint of criminalised transfers and agents.

<sup>220</sup> This is not to suggest that human sources are unimportant in formal systems; indeed, it is often human sources that point the authorities towards particular electronic transactions or banking patterns. However, in informal systems criminal investigations and the preparation of evidence are likely to rely almost entirely on human sources and testimony.

<sup>221</sup> There is a parallel here to the discovery by advanced national security agencies that contemporary counter-terrorism relies heavily on human information-collection and low-technology approaches to penetrate and disrupt what are generally low-technology environments and methods of criminality.

<sup>222</sup> UNODC, *Tracing Dirty Money – an expert on the trail*, 2011.  
<<http://www.unodc.org/unodc/en/frontpage/2011/August/tracing-dirty-money-an-expert-on-the-trail.html>>

<sup>223</sup> UNODC, *Estimating Illicit Financial Flows Resulting from Drug Trafficking and other Transnational Organized Crimes*, 2011.

Exchange companies etc. These institutions regularly submit Suspicious Transaction Reports (STR) and Currency Transaction Reports (CTR). The STRs are analyzed by the Financial Monitoring Unit (FMU) established under the Act, and referred to relevant law enforcement agencies (ANF, FIA, FBR - for trade based money laundering - and NAB) for investigation and prosecution.

However the AML Act has inherent flaws. The Constitution of Pakistan excludes B Areas in Balochistan and KPK from the parliament's legislative coverage. This means that AML Act's coverage does not extend into these areas and transactions occurring in these areas are legally not subject to scrutiny. Furthermore, the FMU only monitors transactions occurring in the formal financial institutions. The money laundering occurring through Hawala/Hundi channels has no oversight in place, practically leaving open a window for money launderers for conveniently transferring money to international tax havens, off-shore accounts (e.g. in Cayman Islands) and benami accounts (e.g. in Dubai).

The AML Act does not apply to fiscal offences. These offences include smuggling of otherwise legal goods for the purposes of evading customs duties and income tax. This is a handy loophole for money launderers using IVTS, since smuggling-based repatriation of value, once realised in cash, can be deposited with formal financial institutions.

In the views of an official interviewed for the purposes of this study, the AML Act is a disincentive for financial inclusion because the tax evasion rate in Pakistan is very high. He argued that the "know your customer" regulation issued by SBP is slowing financial inclusion as people go to bank as long as the source of their income remains anonymous. The official suggested that alternate steps like making utility bills payable exclusively by cheques could be explored to incentivize financial inclusion.



## 9. IMPACT OF THE ILLEGAL TRADE

The illegal trade in drugs, human beings, arms, natural resources and money has a multi-faceted impact on the legitimate economy, government, society and people, which extend far beyond the local context. Financial flows benefiting individuals and groups involved in these illegal activities underscore their economic viability and perpetuate them further, reinforcing the cycle.

This chapter focuses on the impact of illegal trade on the economy, the Government and its institutions as well as society and people. See Table 22 for a non-exhaustive summary. An attempt has been made to differentiate between the three areas of impact even though they are interlinked – for instance, a loss to the economy can also potentially threaten political stability. In addition, the impact of the illegal economy is not completely uniform and some areas, like the border regions of Balochistan, KPK and FATA, may be more vulnerable than others.

Table 22: Non-exhaustive summary of the impact of the illicit trade

Impact on the economy	<ul style="list-style-type: none"> <li>- Real estate bubbles</li> <li>- Rent-seeking activities</li> <li>- Crowding out of the licit economy</li> <li>- Remittances</li> </ul>
Impact on the Government	<ul style="list-style-type: none"> <li>- Weakened institutions/undermining the rule of law</li> <li>- Small tax base/loss of revenue</li> <li>- Increased expenditure on law enforcement and criminal justice</li> <li>- Threats to political stability</li> </ul>
Impact on society/populations	<ul style="list-style-type: none"> <li>- Impact on health</li> <li>- Brain drain/skill depletion from emigration</li> <li>- Erosion of trust in public institutions</li> <li>- Environmental damage</li> </ul>

### 9.1. Impact on the economy

The underground economy in Pakistan, most of which consists of smuggling and trafficking, corruption, informal employment etc., has been estimated to range between 52.6 percent and 62.8 percent of GDP in 2005, with tax evasion ranging between 5.7 percent and 6.5 percent of GDP.<sup>224</sup> Not only is Pakistan currently suffering a loss of about US\$ 10 billion to US\$ 15 billion in evaded taxes annually, the forgone growth opportunity by the industrial sector, due to lost competitiveness and brain-drain, may have already cost Pakistan a decade's worth of growth and development. Corruption, in particular, has distorted decision making and the allocation of resources as well as impacted effective service delivery. It is one of the primary factors increasing the cost of doing business in Pakistan and discouraging international investors.<sup>225</sup>

Economic activity generated in Pakistan's formal economy due to the drug trade and production is minimal.<sup>226</sup> Most of the income generated through drug trafficking is reportedly localized in the FATA region or the B-Areas in Balochistan, limited to closed drugs networks, non-state groups or off-shore accounts. The trade and production of drugs creates few jobs in Pakistan and provides livelihoods for predominantly Afghan farmers.

<sup>224</sup> Kemal, A., *A Fresh Assessment of the Underground Economy and Tax Evasion in Pakistan: Causes, Consequences, and Linkages with the Formal Economy*, Pakistan Institute of Development Economics Working Papers 2007:13.

<sup>225</sup> Worldwide Governance Indicators <[http://info.worldbank.org/governance/wgi/sc\\_chart.asp](http://info.worldbank.org/governance/wgi/sc_chart.asp)> accessed 27 July 2011.

<sup>226</sup> A seasoned government officer who has administered FATA was asked whether the money circulating in the narcotics economy was Pakistani or Afghan. He replied simply 'Afghan'.

Organized criminal networks, particularly smugglers, human traffickers and gun-runners, have benefitted economically from the weakly controlled ATT and the insufficiently regulated FATA region and B-Areas in Balochistan. Criminal groups and traders in Pakistan's border regions with Afghanistan have leveraged off the increased trade bandwidth, supplying legal and illegal commodities and products for the war and smuggling goods into Pakistan.

#### 9.1.1. Flows into domestic real estate

The real estate market is a key destination for funds generated in the illegal economy for some time. Buyers need to have relevant identification documents (for Pakistani nationals, a national identity card) but the production of a national tax number or any evidence of being a taxpayer is not required at the time of purchase. Many housing societies do require that property transactions take place through the formal banking system, with bank drafts being the means of payment, but in a country where access to financial services is limited, this requirement can be circumvented.

Substantial funds that flow into real estate and other movable or immovable assets, create a 'bubble' effect where market prices are inflated even though the economic fundamentals do not support higher prices. This phenomenon could be economy-wide, or may manifest itself in a particular city or even a locality.

Real estate bubbles create a situation where property prices are not commensurate with buying power (from legitimate incomes). Such bubbles place upward pressure on property taxes which may increase Government revenues but can also drive residents out of neighborhoods. They encourage urban sprawl, as prospective buyers are forced further and further away from city centers in their quest for affordable property. Real estate bubbles also distort investment patterns in the economy, even for legitimate income, and attract incomes into non-productive uses.

#### 9.1.2. Flows into rent-seeking activities

Proceeds from crime can be used to bribe public officials, usually to influence policy-making. Given that the business interests of persons involved in illegal activities are often diversified, including legitimate businesses, such rent-seeking activities can have an impact on the documented economy. Depending on the policies being influenced and the extent of corruption in public institutions, such activities can have profound repercussions on how the economy functions and can help explain why some economic reforms are never implemented. Proceeds from crime can also be used to undermine the law enforcement agencies by bribing their officials into silence or even complicity.

#### 9.1.3 Crowding out the documented economy

Customs officials estimate that 80-85 percent of ATT goods are smuggled into Pakistan, servicing commercial hubs in Pakistan such as Lahore, Karachi, Rawalpindi, Peshawar, Quetta etc. Afghan smuggled goods are a second reality of Pakistan's domestic commerce. An interviewed Customs official informed that some local industrial producers supplying the Pakistani market choose to use the arbitrage opportunity offered by this smuggling window through Afghanistan. These goods (for example ghee, cement, shoes, tea etc) are exported to Afghanistan, earning GST refund and duty rebates, only to be smuggled back into the country earning higher profit margins.

According to depositions made before the National Assembly's Standing Committee on Finance in January 2010, about US\$ 5 billion worth of smuggled goods enter the country annually via the ATT, representing a revenue loss of about US\$ 2.5 billion to the national exchequer. The ATT, in short, is thought to be responsible for three-fourths of the value of smuggled items available in Pakistan. The actual loss to the overall economy, once the multiplier effects are accounted for, is much larger and difficult to estimate.

#### Box 8: Example of a smuggler turned entrepreneur from KPK province

Noor Din (name changed for anonymity) was at one time a carrier of Afghan transit goods smuggled into Pakistan across the Pak-Afghan border on dirt tracks. As he learnt the art of smuggling goods, he ventured into organizing his own goods smuggling business using ATT. He would order television sets and other commercial goods, re-label them and supply them to consumer markets spread from Peshawar to Karachi. He would also deal in valuable commodities such as gold.

A few years ago, he entered into an amnesty deal with the government, whereby he secured a concessionary duty rate for his imports and legalized his assets in exchange for relinquishing his illegal businesses.

Soon afterwards, he became the sole distributor of gold in Lahore and moved on to set up a production plant of consumer durables such as air conditioners and televisions. In addition, he now also owns a textile mill.

The manufacturing and wholesale/retail sectors contribute 18 percent each to Pakistan's overall economy, equivalent to US\$ 197 billion in 2011.<sup>227</sup> These two key sectors, which are directly impacted by ATT, have a current recorded value of about US\$ 70 billion. Manufacturing suffers as Pakistan's products cannot compete with smuggled goods. Informal markets prosper as retailers and wholesalers benefit from cheaper duty free products to sell, on which GST is not applicable.

The prospects of moving illegal funds into Pakistan's mainstream economy and plugging the gaps of corruption and tax evasion do exist. Box 8 showcases the example of a smuggler turned entrepreneur who now runs legitimate light engineering manufacturing, textile and gold businesses, as a result of an amnesty deal with Pakistani authorities. But criminal funds, even if invested in the legal economy, may create a number of problems, from distortions in resource allocation to 'crowding out' legal sectors and undermining the reputation of local institutions, which, in turn, can hamper investment and economic growth.

#### 9.2. Impact on the government

The growth of organized crime and related corruption undermine the very foundations of the state, simply by creating parallel structures or systems of governance on which citizens become increasingly reliant. Governance systems and rule of law institutions are weakened by rent-seeking activities; chances for economic, political and social development are diminished and the prevention of conflicts becomes impossible. There is growing evidence that the proceeds of crime are being used to fund non-state actors, posing an additional challenge for the Government of Pakistan, with implications extending beyond Pakistan.

Such risks also increase the level of state expenditure on law enforcement, criminal justice systems and security and indirectly influence public policy in key areas such as border control, customs procedures and the viability of infrastructure and transport projects. An increase in the cost of services due to corruption leaves the majority of people unable to avail these services.

The impact of organized crime on political stability cannot be under-estimated. With illegal trade causing significant losses to the national exchequer, the Government loses resources which it could otherwise use to provide security, justice and jobs to the citizens – including, especially, in remote border locations where criminal activities thrive -- to break the nexus of illegal trade and its related risks.

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<sup>227</sup> Government of Pakistan, *Pakistan Economic Survey 2010-11*, Finance Division, 2011.

### 9.3. Impact on society

According to an opinion poll conducted in spring 2009, 93 percent of Pakistanis surveyed consider 'crime' as the biggest problem they face.<sup>228</sup> With increase in public insecurity, it is individuals and societies that suffer, particularly, from displacement. Women, children and the elderly are the most vulnerable groups in this regard.

Drug use increases the costs of health care by require expenditure on the treatment and rehabilitation of drug users. Health problems impair family life and productive employment, diminish the quality of life and may threaten survival.<sup>229</sup> Other problems associated with drug use include criminal and juvenile justice costs – in Pakistan about 9 percent (7,507) of the total jail population is imprisoned for drug trafficking and 4.3 percent (3630) of it are drug addicts, according to official figures, although reports of widespread drug use in prisons suggest that the actual figure is much higher.<sup>230</sup> As research has indicated, drug use also results in psychological problems for drug users as well as their families and in physical and domestic violence (particularly for spouses of drug users).<sup>231</sup>

The illegal timber trade causes significant environmental damage. Deforestation accounts for between 12 percent and 15 percent of the world's carbon emissions, making it the second largest man-made source after the burning of fossil fuels.<sup>232</sup>

Irregular migration has adverse consequences for migrants. This is most obviously the case for the victims of trafficking who are usually women or children and are often exploited in domestic work or the sex industry. Research on the smuggling of asylum seekers, in particular, has demonstrated that such smuggling can also expose migrants to economic, social and political vulnerability. Irregular migrants often work in precarious and dangerous jobs; they are excluded from health, education and other social welfare provisions, and they can be subject to exploitation in the housing market.<sup>233</sup>

Families of irregular migrants who die en route are unlikely to seek justice because there may be repercussions in the form of threats and violence by smugglers. In one case where a young irregular migrant from Gujranwala was allegedly killed in Turkey for non-payment of what can only be described as ransom, his father lodged a complaint against the smuggler who happened to be his relative. The bereaved father, however, ended up in prison under accusations of assault and theft from the smuggler. In another case from the same area, in 2006 a family "reported their son missing -- apparently while on his way to Greece -- only to learn later that he had died during the ordeal. The smuggler whom the parents had paid to organize the hazardous journey was arrested, but the victim's family declined to testify against him after he promised to take two other sons overseas free of charge."<sup>234</sup>

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<sup>228</sup> Survey conducted by the Pew Global Attitudes Project 'Growing Concerns about Extremism, Continuing Discontent with U.S.', 13 August 2009. 'Crime' tops the list of problems Pakistanis face.

<sup>229</sup> UNDCP, *The Social Impact of Drug Abuse*, 1995. Accessed on 25 September 2011 at <[http://www.unodc.org/pdf/technical\\_series\\_1995-03-01\\_1.pdf](http://www.unodc.org/pdf/technical_series_1995-03-01_1.pdf)>

<sup>230</sup> National Academy for Prisons Administration, 2010.

<sup>231</sup> UNODC, *The Social and Economic Impact of Drug Use on Families*, April 2010.

<sup>232</sup> The Guardian, *Kashmir fears forests will disappear through timber smuggling*, Accessed on 14/07/2010 at <[http://www.illegal-logging.info/item\\_single.php?it\\_id=4605&it=news&printer=1](http://www.illegal-logging.info/item_single.php?it_id=4605&it=news&printer=1)>

<sup>233</sup> Koser, K., *Irregular migration, state security and human security and human security*, Global Commission on International Migration, , September 1995, Accessed on 16 August 2011 at <http://www.gcim.org/attachments/TP5.pdf>

<sup>234</sup> Information from Integrated Regional Information Networks (IRIN), "Pakistan: Trafficking of children on the rise", January 21, 2008.

Since the infamous Yiohan tragedy off the coasts of Malta and Sicily<sup>235</sup> in which 283 mainly South Asian migrants had perished, many more have drowned at sea or died during the journey over land. Box 9 below shows, in brief, a selection of related examples.

**Box 9. Selection of news reports highlighting the dangers faced by irregular migrants**

**BBC News Online, 29 September, 2003**

Landmine deaths on Greek border

Seven illegal immigrants suspected to be from Pakistan were killed by landmines as they attempted to cross from Turkey into Greece on Monday.

The immigrants cut through a barbed wire fence after passing signs warning of a heavily mined field, an Greek army spokesman told AFP news agency.

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**Dawn, December 5, 2007**

3 Pakistanis die of cold at Greek-Turkish border

RAWALPINDI, Dec 4: Three Pakistani illegal immigrants died while trying to enter into Greece from Turkey, official sources told Dawn here on Tuesday.

The three men died of severe cold in the last week of November at Salmas, a mountainous border town of Turkey, while trying to enter into Greece with a group of illegal immigrants, an immigration official requesting not to be named said.

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**Dawn, April 5, 2009**

Police recover 46 bodies from container in Quetta

QUETTA At least 46 illegal immigrants have died and 60 became unconscious in a locked container in Hazar Ganji area of Quetta. All of the victims were Afghan nationals including Uzbek, Tajiks and Hazaras who were trying to enter Iran through unfrequented routes of Balochistan having no valid travel documents.

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**Yahoo! News, August 4, 2009**

Dubai bound irregular migrants die at sea

At least seven Pakistanis and an Iranian sailor starved to death, their bodies thrown out to sea during a failed mission to smuggle irregular migrants to the Gulf, an official said Tuesday.

Four survivors managed to reach the town of Dera Ghazi Khan in Pakistan's central Punjab province where they informed authorities about the incident.

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<sup>235</sup> For more details of this tragedy at sea see

<http://www.guardian.co.uk/world/2003/oct/19/italy.johnhooper> (accessed 15 July 2011).



## 10. CONCLUSION AND RECOMMENDATIONS

This study has made an initial attempt at analyzing the scale and dynamics of the illegal economy of Pakistan. Each of the crime types examined has had inter-linkages with, and impacts extending to, the region and beyond. It is clear that organized crime has diversified, gone global and reached macro-economic proportions: illicit goods are sourced from one continent, trafficked across another, and marketed in a third.<sup>236</sup> While there are some structural challenges in Pakistan (which include institutional and law enforcement capacities, legislative and regulatory gaps, resource constraints, limited and questionable data), the solution to countering the illegal economy lies in regional and international cooperation.

The illegal economy is dynamic and unconstrained by the predictability of Government systems. In order to be effective, counteracting strategies must be underpinned by innovation and change. The broad policy recommendations outlined below are addressed to a range of stakeholders including the Government of Pakistan its development partners and the civil society.

### 1. Mainstream

The findings of this study show that organized crime groups cannot operate effectively without a development and governance vacuum. For instance, there is a feedback loop between the illegal economy and economic inequalities. Economic inequalities provide an enabling environment for illicit trade, corruption and organized crime. In turn, proceeds reinforce the power of the connected, while undermining economic development by raising the costs of doing legitimate business, thereby increasing inequalities both within and between countries.<sup>237</sup>

Organized crime impacts human security at multiple levels and the measures to counter the illegal economy need to be made a part of the mainstream development frameworks. For the Government, this means the inclusion of measures countering organized crime into the general growth frameworks; as things stand now, organized crime is addressed by stand-alone policies (e.g. the anti-narcotics policy), which remain under-funded. Pakistan's development partners, too, should address illegal trade and organized crime as part of their overall aid programs. The United Nations Development Assistance Framework (UNDAF) in Pakistan will incorporate rule of law and illicit trafficking and border management issues in the second generation One UN Program (OP II) that will begin in 2013 for a period of five years (until end-2017).

### 2. Capacity-building

Discussions with Government officials have revealed that law enforcement agencies struggle to interdict trafficking and smuggling of various kinds and scales, particularly at the borders, at a serious cost to governance, development and security. Exacerbating the situation further is the fact that the law enforcement personnel are themselves targeted by non-state actors. In addition, legislative gaps have allowed criminals to exploit loopholes in laws.

Core capacities of law enforcement agencies need to be enhanced to reduce illegal trade and manage Pakistan's international borders more effectively. Foundational and specialized training and equipment needs to be provided to law enforcement agencies to support them in their core functions of investigations, interdictions and prosecutions. Capacities to address legislative and regulatory gaps should also be strengthened. Inter-agency collaboration is the

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<sup>236</sup> UNODC, *The Globalization of Crime: A Transnational Organized Crime Threat Assessment*, 2010.

<sup>237</sup> World Economic Forum, *Global Risks Report*, 2011.

key as are Government capacities for information collection and analysis to enable evidence-based decisions.

### 3. International cooperation

Illicit activity takes place for two primary reasons – the source, transit and destination countries provide facilitating governance vacuums and there is a global demand for these goods/services. As often incorrectly perceived, the problem is not national and the solution must be international.

International cooperation – both on the supply side and on the demand side – is urgently needed. Stronger links between law enforcement agencies in the region and beyond to ensure transparency of financial flows will improve attempts to track and control the flows of illegal capital. Links between law enforcement agencies, development practitioners and civil society are currently lacking and need to be developed. In addition, reducing variation in different countries' capacity to regulate and enforce will inhibit illegal activities from shifting to the least vigilant jurisdictions. Extending and harmonizing national laws containing extraterritorial provisions can another viable solution.

### 4. Demand-side intervention

A large portion of the demand for illegal goods is generated in advanced economies. Addressing the demand for illegal activities requires a long-term investment of resources into somewhat normative activities. A greater understanding of the human and economic impact of engaging in illicit trade would reduce demand for illicit goods in advanced economies. This implies a focus on education, ethics training and the construction of new norms.

These interventions could be reframed as a means to support economic growth and human security. Such a reframing could shift priorities and behaviour while driving greater cooperation among a broader range of institutions.

### 5. Research

Attempts to understand the dynamics and impact of the illegal economy as well as design appropriate responses are challenged by the quality of available information – existing data is limited and questionable. This limits optimal expenditure on law enforcement and security, and the indirect influence on public policy in key areas such as border control, customs procedures and the viability of infrastructure and transport projects.

Enhancing Government capacities in information management - including data collection, analysis and reporting - should be given a priority and national, regional and potentially even global information sharing systems developed. More in-depth research into the illegal economy and organized crime needs to be undertaken in order to better position countering development strategies.

## Annex I: Definitions of migrant smuggling and human trafficking

### Under international law

Article 3(a) of the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime, which is a supplement to the United Nations Convention against Transnational Organized Crime, states:

“Trafficking in persons” shall mean the recruitment, transportation, transfer, harboring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labor or services, slavery or practices similar to slavery, servitude or the removal of organs.”

It further states in 3(b) that the fact that the victim may have consented is irrelevant as long as any of the means listed above has been employed. Where a child – in international law that is under 18 years of age – is the subject of recruitment, transportation, transfer, harboring or receipt, it is trafficking, according to 3(c), even when none of the means mentioned above are used.

Migrant smuggling is defined separately and differently under the same Convention, by its supplementary Protocol against the Smuggling of Migrants by Land, Sea and Air, under Article 3(a), as:

“Smuggling of migrants” shall mean the procurement, in order to obtain, directly or indirectly, a financial or other material benefit, of the illegal entry of a person into a State Party of which the person is not a national or a permanent resident.”

Article 6(c) of this Protocol also criminalizes acts:

“Enabling a person who is not a national or a permanent resident to remain in the State concerned without complying with the necessary requirements for legally remaining in the State by the means mentioned in subparagraph (b) of this paragraph or any other illegal means.” ...subparagraph (b) mentions production, procurement, provision or possession of “a fraudulent travel or identity document.” Article 5, however, explicitly excludes illegal migrant him/herself from being criminalized under the Protocol.

### Under Pakistani law

Article 11(2) of the Constitution of Pakistan declares that “[all forms of forced labor and traffic in human beings are prohibited.”

Pakistan has included some aspects of the two protocols of the UN Convention against Transnational Organized Crime in its domestic law through the Prevention and Control of Human Trafficking Ordinance (PACHTO), 2002. Unlike the Convention, where the definition of human trafficking also covers intra-state trafficking, PACHTO restricts trafficking to where victims are being moved into or out of Pakistan. A selection of other federal and/or provincial laws may be used to address internal trafficking.

The Federal Government primarily deals with inter-state human trafficking as immigration is a federal subject under the Constitution. While local police can take cognizance of the crime, the specialized mandate to deal with it lies with the Federal Investigation Agency (FIA).

PACHTO extends the same exception and treatment to victims under 18 years of age as does the protocol on human trafficking. As far as the Ordinance’s wording is concerned, it does not differentiate between migrant smuggling and human trafficking. It deals with all acts, as described by the two UN protocols, under the single heading of human trafficking. It follows that the

exemption from criminal liability that PACHTO grants victims of human trafficking also extends to smuggled migrants. The migrants' exclusion from criminal prosecution, however, is implicit rather than explicit.

Although PACHTO does not explicitly state it, the exemption from criminal prosecution in cases of the smuggled emigrants may be subject to other relevant laws, e.g. relevant parts of The Passport Act (TPA) 1974, section 17(1) of the Emigration Ordinance (EO) 1979 and any relevant part(s) of Code of Criminal Procedure (CCP) 1898 (Act V of 1898), especially in the case of deportees. Typically, this means a deportee is ordered by the court to pay a small fine (up to PKR 10,000), if prosecuted. FIA sees deportees as victims who in any case have had to spent time in custody abroad, sometimes up to a year or more, before being deported. Illegal emigrants intercepted within the territorial limits of Pakistan, if prosecuted, are usually released after paying fines of only a few dollars.

## **Annex II: Definition of kidnapping**

The Pakistan Penal Code PPC (1860) defines different forms of kidnapping and also gives the punishments for each type. Sections 359 to 369 deal with the crime, categorizing each offence on the basis of intent. Broadly it bifurcates kidnapping into 'kidnapping for ransom' and 'kidnapping from legal guardian' -- the latter concerns minors (boys under 14 years and girls under 16 years of age) kept without the consent of legal guardians. Section 365A of the PPC deals with kidnapping for ransom.

“Section 365A : Whoever kidnaps or abducts any person for the purpose of extorting from the person kidnapped or abducted, or from any person interested in the person kidnapped or abducted, any property, whether movable or immovable, or valuable security, or to compel any person to comply with any other demand, whether in cash or otherwise, for obtaining release of the person kidnapped or abducted, shall be punished with or imprisonment for life and shall also be liable to forfeiture of property”

The section was inserted in the PPC in 1990 (Criminal Law Amendment Act 1990) and generally leads the courts to apply maximum penalty in successfully prosecuted cases.

### Annex III: Trade with Afghanistan

Official trade between Pakistan and Afghanistan amounted to US\$ 1.5 billion in 2009/10, 12 percent higher than in the previous year.<sup>238</sup> In general, bilateral trade between the two countries over the past five years has fluctuated around the US\$ 1 billion level. The trade balance is heavily tilted in Pakistan's favor, with over 90 percent of the total trade consisting of Pakistani exports to Afghanistan. Imports from Afghanistan were valued at just over US\$ 139,000 in 2009/10.

Afghanistan, being a land-locked country, relies on ports in Iran and Pakistan for its external trade shipments. Both countries are obliged to provide transit trade facilities as per the UN's Law of the Sea Convention (UNCLOS III) which gives landlocked countries the right to access ports in neighboring countries. Transit to Afghanistan through Pakistan was, until recently, governed by the 1965 Afghan Transit Trade Agreement (ATTA) which specified the transit routes and customs procedures to be applied. The agreement was updated in October 2010 to allow more free movement of goods across the border. Under the new law, Afghan trucks are allowed to carry cargo to Karachi as well as to the Wagah border with India. Pakistani trucks will similarly be able to traverse Afghanistan right through to the Central Asian Republics. Although the new law provides stringent regulations for the verification of identity of truckers who cross borders, it still represents a significant relaxation of controls.

Data on Pakistan's legal trade with Afghanistan significantly underestimates the traffic of goods and services across the border. ATT logistics and transactions are considered as fronts for a significant smuggling operation – according to depositions made before the National Assembly's Standing Committee on Finance in January 2010, about US\$ 5 billion worth of smuggled goods enter Pakistan via the ATT, representing a revenue loss of about US\$ 2.5 billion to the national exchequer. ATT, in short, is thought to be responsible for three-fourths of the value of smuggled items available in Pakistan. Key demands on ATT regulation from the Pakistani side have thus included harmonization of tariffs and duty valuation methods on both sides of the border, allowing Pakistani authorities to collect duties for ATT goods in Karachi, and then transferring funds to the Afghan Government and, most importantly, making it mandatory for Afghan importers to open letters of credit from within Afghanistan, thus precluding the possibility of orders being placed for imports which are patently not required or wanted in the Afghan market. Proposed measures to curb smuggling include installing tracking devices on trucks, and requiring Afghan importers to furnish financial guarantees to Customs officials in Pakistan, who will proceed to return deposits when the authorized goods exit Pakistan.

It is as yet too early to assess the economic effects of implementation of the new Afghan transit trade law. Nevertheless, the business community's grievances regarding the misuse of ATT facilities have to be taken into account when assessing the nature of the illegal economy.

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<sup>238</sup> Data in this section is from the website of the Board of Investment, unless otherwise stated.

